HYPO VORARLBERG BANK AG

ANNUAL REPORT
2021

KEY FIGURES 2021

Key figures of Hypo Vorarlberg Bank AG (Hypo Vorarlberg) - Group reporting per IFRS:

Balance sheet figures TEUR	Notes	31/12/2021	31/12/2020	Change in TEUR	Change in %
Total assets		15,626,113	15,296,768	329,345	2.2
Loans and advances to banks		314,964	227,250	87,714	38.6
Loans and advances to customers		10,378,665	10,340,227	38,438	0.4
Liabilities to banks		3,030,584	2,844,254	186,330	6.6
Liabilities to customers		5,418,127	5,646,971	-228,844	-4.1
Securitised liabilities		5,521,955	5,186,498	335,457	6.5

Income statement TEUR	Notes	2021	2020	Change in TEUR	Change in %
Net interest income	(6)	196,061	174,160	21,901	12.6
Net fee and commission income	(8)	38,023	34,647	3,376	9.7
Administrative expenses	(13)	-98,746	-95,112	-3,634	3.8
Earnings before taxes		93,678	48,825	44,853	91.9
Consolidated net income		66,810	37,331	29,479	79.0

Corporate figures	Notes	2021	2020	Change absolute	Change in %
Cost/Income ratio (CIR)		54.86 %	51.18 %	3.68 %	7.2
Return on equity (ROE)		7.64 %	4.07 %	3.57 %	87.7
Employees	(53)	719	694	25	3.6

Own funds TEUR	31/12/2021	31/12/2020	Change absolute	Change in %
Common equity tier 1 capital (CET1)	1,301,835	1,239,951	61,884	5.0
Additional tier 1 capital (AT1)	50,002	50,003	-1	0.0
Tier 1 capital (T1)	1,351,837	1,289,954	61,883	4.8
Tier 2 capital (T2)	225,957	249,973	-24,016	-9.6
Own funds	1,577,794	1,539,927	37,867	2.5
CET1 capital ratio (CET1)	15.39 %	14.34 %	1.05 %	7.3
Surplus of CET1 capital (CET1)	921,167	850,923	70,244	8.3
T1 capital ratio (T1)	15,98 %	14,92 %	1.06 %	7.1
Surplus of T1 capital	844,280	771,250	73,030	9.5
Total capital ratio	18.65 %	17.81 %	0.84 %	4.7
Surplus of total capital	901,051	848,321	52,730	6.2

The shareholders of Hypo Vorarlberg Bank AG (Hypo Vorarlberg) as of 31 December 2021:

Shareholders	Total shareholding	Voting Rights
Vorarlberger Landesbank-Holding	76.8732 %	76.8732 %
Austria Beteiligungsgesellschaft mbH	23.1268 %	23.1268 %
- Landesbank Baden-Württemberg	15.4179 %	
- Landeskreditbank Baden-Württemberg Förderbank	7.7089 %	
Share capital	100.0000 %	100.0000 %

Ratings	Standard & Poor's	Moody's
Long-term senior debt	A+	A3
Short-term	A-1	P-2
Outlook	negativ	stable

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HYPO VORARLBERG

WILFRIED AMANN
MEMBER OF THE MANAGING BOARD

MICHEL HALLER
CHAIRMAN OF THE MANAGING BOARD

PHILIPP HÄMMERLE
MEMBER OF THE MANAGING BOARD

FOREWORD
BY THE MANAGING BOARD

Crises are best tackled together: Customers value Hypo Vorarlberg as a reliable and stable partner, particularly in economically challenging times.

Dear customers, business partners, shareholder representatives and employees,

Business, politics and society have been contending with the coronavirus crisis for more than two years now, with many habits in our personal and professional lives turned completely upside down. On top of this comes Russia's military attack on Ukraine, which has dominated world affairs since the end of February. This war has above all brought human suffering, a huge wave of refugees from Ukraine to the neighbouring countries and fears of a nuclear attack, but in addition the energy and fuel supply in Europe has suddenly become a serious issue. The effects of the war will make 2022 a difficult year, not only with regard to inflation rates and the economic development.

The past twelve months were challenging, but at Hypo Vorarlberg we can nonetheless look back on an economically successful 2021 financial year. This is primarily thanks to the stable development of customer business in our core markets. We are glad that after the difficult first year of the pandemic, we have now again been able to bring in a very good result. Loans and advances to customers were up year-on-year again in 2021, while net interest income and net fee and commission income also increased. In addition, the need for loan loss provisions decreased in the reporting year.

During the pandemic, the big issues of digitalization and sustainability gathered significant momentum and also drove changes. Developments that had already begun before the pandemic also gained fresh impetus – not least because the EU funds for combating the pandemic are tied to countries' willingness to set out on the path towards a sustainable, resource-efficient economy. At the same time, regulatory initiatives from the past few years are progressing – particularly measures in connection with the EU action plan for financing sustainable growth.

In view of these developments, sustainability is increasingly perceived as a strategic challenge that is crucial to the future viability and resilience of a company's business model. We are therefore continuously developing our products and services. The way in which business is done is extremely important to us. For this reason, we have long defined ethical and sustainable criteria in our investment and financing business.

As a mindful advisory bank, sustainability is practically in Hypo Vorarlberg's genes, but we will nonetheless redouble our efforts in the future, as demand for sustainable financial products is increasing.

In a persistently uncertain and challenging environment of the kind we are currently experiencing, it is all the more important to have a reliable and stable partner by one's side. For us, stability means that we focus on our core business and are a long-term partner for our customers and not just a temporary one – especially when it comes to tackling crises.

Thank you to our nearly 900 employees for their commitment and hard work in the past financial year. Now it is a question of building up fresh courage and strength to tackle the next challenging year. We are confident that we will also overcome the current challenges together – as we have been doing with our customers and business partners ever since our company was founded 125 years ago.

The members of the Managing Board

Michel Haller Chairman of the Managing Board	Wilfried Amann Member of the Managing Board	Philipp Hämmerle Member of the Managing Board

ORGANISATIONAL CHART

MANAGING BOARD

MICHEL HALLER
CHAIRMAN OF THE MANAGING BOARD

Credit Management – Corporate Customers
Stefan Germann
- Credit Management – Corp. Customers
- Credit Management Banks & Leasing
- Credit Management St. Gallen
- Financial Aids Department
- Balance Sheet Analysis

Credit Management – Private Customers
Martin Heinzle
- Credit Management – Private Customers
- Certification / Collateralization
- Credit Service / Collateral Management
- Housing Construction Aids

Group Risk Controlling
Markus Seeger

Law
Klaus Diem
- Central Loan Monitoring Corporate / Private Customers
- Contract Law

Human Resources
Egon Helbok
- HR development

Communication & Marketing
Sabine Nigsch
- Sponsoring / Events

Compliance & Outsourcing
Reinhard Kaindl
- BWG Compliance & Outsourcing
- WAG Compliance
- Prevention of money laundering and terrorist financing

Strategic Bank Management
David Blum

Corporate and Internal Audit
Christoph Schwaninger

St. Gallen Branch Office
Thomas Reich

Hypo Vorarlberg Leasing, Italy
Michael Meyer (Backoffice/Risk Management)

Hypo Vorarlberg Immo Italia, Italy
Alexander Ploner

WILFRIED AMANN
MEMBER OF THE MANAGING BOARD

Corporate Customers Sales
Stephan Sausgruber
- Branch Offices Corporate Customers
- International Services
- Syndication / Structured Financing

Private Customers Sales / Private Banking
Markus Felder
- Branch Offices Private Customers
- Private Banking
- Wealth Management (Bregenz)
- EU Payment Transactions

Sales Vienna
Roswitha Klein
- Corporate Customers
- Private Customers / Mobile Sales Unit
- Wealth Management (Vienna)

Sales Support
Stephan Modler
- Product Management
- Customer Service Center
- Marketing Management

Treasury
Florian Gorbach
- Funding & Investor Relations
- APM & Investments
- Money, Foreign Exchange and Interest Derivatives Trading
- Securities Customer Trading

Participation Administration
Emmerich Schneider

St. Gallen Branch Office
Walter Ernst, RM

Hypo Vorarlberg Leasing, Italy
Christian Fischnaller (Sales)

Hypo Immobilien & Leasing GmbH
Wolfgang Bösch
Peter Scholz

PHILIPP HÄMMERLE
MEMBER OF THE MANAGING BOARD

Finance
Bernhard Egger
- Bookkeeping, Supervisory Reporting
- Account Management
- Data and Document Management

Controlling
Peter Holzer

Asset Management
Karl-Heinz Strube
- Portfolio Management
- Fund Advisory
- Financial Analysis/Research
- Advisory Desk

Mid- and Backoffice Funds, Securities and Derivatives
Johannes Tschanhenz
- Swap Group
- Funds Service
- Securities Settlement

Data Protection
Daniel Oberauer

IT
Johann Berchtold
- IT Core Banking
- International Payment Transactions

Jörg Ruwe
- IT Digital Banking

Johannes Lutz
- IT Operations

Logistics
Wilhelm Oberhauser
- Facility and Materials Administration

Data Protection
Daniel Oberauer

Compliance & Outsourcing
Reinhard Kaindl

Ombudsperson
Martha Huster

Corporate and Internal Audit
Christoph Schwaninger

BRANCH OFFICES OF HYPO VORARLBERG

Vienna Branch Office
Roswitha Klein, RM
Robert Glasner, HPC CC
Hans-Jürgen Spitzer, HCC
Katharina Jantschgi, HPC PB

Graz Branch Office
Ernst Albegger, RM
Gerhard Vollmann, HPC BP

Wels Branch Office
Thomas Hofer, RM
Iris Häuserer, HPC PB

Salzburg Branch Office
Peter Gassner, RM

Bludenz Branch Office
Peter Meyer, BOH
Walter Hartmann, BOH PC

Feldkirch Branch Office
Martin Schieder, BM
Stefan Kreiner, HPL
Katharina Woletz, SPC

LKH-Feldkirch

Rankweil

Götzis Branch Office
Franz Altstätter, BM

Hohenems Branch Office
Andreas Fend, BOH

Lustenau Branch Office
Graham Fitz, BOH
Stefan Ritter, BM

Höchst Branch Office
Klaus Meusburger, BM

Bregenz Private Customers Branch Office
Stephan Spies, SPC
Stephan Bohle, HPB
Alexander Walterskirchen, HPL

Bregenz Corporate Customers Branch Office
(incl. Bregenzerwald)
Simon Ruff, BOH

Germany Corp. Customers Branch Office
Markus Schmid, BOH

Bregenz Wealth Management
Stefan Schmitt, HPB

Dornbirn Branch Office
Richard Karlinger, BOH
Egon Gunz, BOH PC

Messepark Branch Office
Lena-Maria Schuler, HSC

Riezlern Branch Office
Artur Klauser, BOH
Josef Wirth, SPC

Schruns Branch Office
Hannes Bodenlenz, BM

Lech Branch Office
Reinhard Zangerl, BOH + BM

Egg Branch Office
Wolfgang Fend, BM

RM	Regional Manager
BOH	Branch Office Head
BOH PC	Branch Office Head Private Customers
BM	Branch Manager Private Customers
HCC	Head of Corporate Customers
HWM	Head of Wealth Management
HPB	Head of Private Banking
HPC PB	Head of Private Customers and Private Banking
SPC	Head of Service and Private Customers
HSC	Head of Service Customers
HPL	Head of Private Loans
HPC CC	Head of Private and Commercial Customers

AS OF MARCH 2022

EXECUTIVE BOARDS

MANAGING BOARD

Michel Haller
Chairman of the Managing Board, Tettnang

Wilfried Amann
Member of the Managing Board, Bludesch

Philipp Hämmerle
Member of the Managing Board, Lustenau

SUPERVISORY BOARD

Jodok Simma
Chairman, Chairman of the Managing Board (retired), Bregenz

Alfred Geismayr
Deputy Chairman, Chartered Accountant, Dornbirn

Astrid Bischof
Entrepreneur, Göfis

Karl Fenkart
State official, Lustenau

Eduard Fischer
Entrepreneur, Offsetdruckerei Schwarzach Ges.m.b.H. (retired), Dornbirn

Michael Horn
Deputy Chairman of the Managing Board of Landesbank Baden-Württemberg (LBBW), Weingarten

Karlheinz Rüdisser
Deputy State Governor of Vorarlberg (retired), Lauterach

Birgit Sonnbichler
Entrepreneur, Dornbirn

Nicolas Stieger
Lawyer, Bregenz

Ulrich Theileis (until 31/12/2021)
Member of the Managing Board of Landeskreditbank Baden-Württemberg – Förderbank (L-Bank), Ettlingen

Veronika Moosbrugger
Chairwoman of the Works Council

Andreas Hinterauer
Works council delegate

Elmar Köck
Works council delegate

Gerhard Köhle
Works council delegate

Peter Niksic
Works council delegate

AS OF MARCH 2022

COMMITTEES ESTABLISHED BY THE SUPERVISORY BOARD

Loan committee
Jodok Simma, Chairman
Alfred Geismayr, Deputy Chairman
Karl Fenkart
Eduard Fischer
Michael Horn
Veronika Moosbrugger
Elmar Köck

Risk committee
Karlheinz Rüdisser, Chairman
Karl Fenkart, Deputy Chairman
Jodok Simma
Nicolas Stieger
Veronika Moosbrugger
Gerhard Köhle

Audit committee
Alfred Geismayr, Chairman
Jodok Simma, Deputy Chairman
Astrid Bischof
Karl Fenkart
Veronika Moosbrugger
Gerhard Köhle

Nomination committee
Birgit Sonnbichler, Chairwoman
Ulrich Theileis, Deputy Chairman (until 31/12/2021)
Jodok Simma
Karl Fenkart
Veronika Moosbrugger
Gerhard Köhle

Remuneration committee
Birgit Sonnbichler, Chairwoman
Ulrich Theileis, Deputy Chairman (until 31/12/2021)
Jodok Simma
Karl Fenkart
Veronika Moosbrugger
Gerhard Köhle

STATE COMMISSIONER

Jutta Raunig

Matthias Ofner
Deputy

ESCROW AGENTS

Wilfried Marte
Head of the District Court, Bregenz

Daniela Steffl
Deputy, Federal Ministry of Finance, Vienna

AS OF MARCH 2022

ADVISORY BOARD

Markus Wallner
Chairman, State Governor of Vorarlberg, Frastanz

Hans Dietmar Sauer
Deputy Chairman, Chairman of the Managing Board of Landesbank Baden-Württemberg (LBBW) (retired), Ravensburg

Alexander Abbrederis
Managing Director, pratopac GmbH, Rankweil

Gerhart Bachmann
President of Vorarlberg Dental Chamber, Feldkirch

Hubert Bertsch
Managing Director, Bertsch Holding GmbH, Bludenz

Ernst Bitsche
Entrepreneur, Thüringen

Christof Bitschi
Chairman of FPÖ Vorarlberg political party, Brand

Herbert Blum
Managing Director (retired), Julius Blum GmbH, Höchst

Christian Brand
Chairman of the Managing Board of Landeskreditbank Baden-Württemberg – Förderbank (L-Bank) (retired), Ettlingen

Birgitt Breinbauer
President of Bar Association Vorarlberg
Lawyer, Dornbirn

Manfred Brunner
Chariman of Österreichische Gesundheitskasse*, Höchst

Guntram Drexel
Supervisory Board of Spar Österreichische Warenhandels AG, Lustenau

Verena Eugster
Chairwoman of Junge Wirtschaft Vorarlberg
Entrepreneur, W3 Marketing GmbH, Dornbirn

Kurt Fischer
Mayor, Lustenau

Stefan Fitz-Rankl
Managing Director, Fachhochschule Vorarlberg, Lustenau

Gerald Fleisch
Managing Director, Vorarlberger Krankenhaus-Betriebsgesellschaft.m.b.h., Dornbirn

Jutta Frick
Managing Director, Bad Reuthe Frick GmbH, Reuthe

Roland Frühstück
Chairman of ÖVP parliamentary group in the Vorarlberg State Parliament, Bregenz

Christof Germann
Member of the Managing Board, Illwerke VKW, Lochau

Heinz Hämmerle
Entrepreneur, Lustenau

Andreas Haid
Mayor, Riezlern

Robert Haller
Hotelier, Mittelberg

Dietmar Hefel
Managing Director, Hefel Textil GmbH, Dornbirn

Joachim Heinzl
Managing Director, Wirtschafts-Standort Vorarlberg GmbH (WISTO), Bludenz

Hans Hofstetter
Lawyer, Schoch, Auer & Partner Rechtsanwälte, St. Gallen

Josef Huber
Entrepreneur, Huber Invest GmbH, Klaus

Robert Janschek
Managing Director, Walter Bösch GmbH & Co KG, Lustenau

Dr. Michael Jonas
President of Vorarlberg Medical Association, Dornbirn

Urs-Peter Koller
Entrepreneur, Wittenbach

Oswin Längle
Managing Director, Längle Glas GmbH, Dornbirn

Michael Ritsch
Mayor of Bregenz

Hans-Peter Lorenz
Managing Director, VOGEWOSI (Vlbg. gemeinnützige Wohnungsbau- und Siedlungsges. mbH), Dornbirn

Hans-Peter Metzler
President of Vorarlberg Economic Chamber, Hittisau

Josef Moosbrugger
President of Austrian Chamber of Agriculture, Bregenz

Martin Ohneberg
President of Vorarlberg Regional Group of the Federation of Austrian Industries
Managing Director, HENN GmbH & Co KG, Dornbirn

Johannes Rauch
State Councillor, Member of the Vorarlberg government, Rankweil

Jürgen Reiner
President of Vorarlberg Chamber of Tax Advisors and Public Accountants, Lochau

Sabine Scheffknecht
Chairwoman of NEOS Vorarlberg political party, Lustenau

Gerold Schneider
Hotelier, Lech

Thorsten Schönenberger
Member of the Managing Board, Landesbank Baden-Württemberg (LBBW), Stuttgart

Thomas Sohm
Managing Director, Etiketten Carini GmbH, Lustenau

Harald Sonderegger
President of Vorarlberg State Parliament, Schlins

Karl Stadler
Delegate of Administrative Board of POLYGENA-Group, Altstätten

Eduard Tschofen
Chartered Accountant, Feldkirch

Stefanie Walser
Managing Director, Walser Fashion & Lifestyle GmbH, Dornbirn

Daniel Zadra
Chairman of „Die Grünen" parliamentary group in the Vorarlberg State Parliament, Lustenau

* bi-annual change

AS OF FEBRUARY 2022

GROUP MANAGEMENT REPORT

MACROECONOMIC
CONDITIONS

Global economy and euro zone
The recovery of the economy gained further momentum in 2021. In March, the purchasing manager indices for both the manufacturing industry and the service sector increased in the eurozone, approaching the expansion threshold of 50 again. The economy in the US recovered faster than in Europe, primarily due to the larger government relief packages, lower business regulation and considerably faster progress on vaccinations. After the difficult pandemic year 2020, China in particular displayed strikingly high growth. Although the losses from the crisis were not yet regained, significant progress in the recovery process was observed worldwide, with there already being initial signs of overheating in the US. By contrast, Japan's economic output contracted in the first quarter due to slow progress on vaccinations and rising infection figures.

The global upward trend also continued in the second quarter and economic expectations improved. In May, the ZEW index for Germany – an economic index from the Mannheim-based Centre for European Economic Research – even climbed to its highest level in over 20 years. The recovery of the economy from the coronavirus restrictions was noticeable all across Europe and was backed up by new highs for various indicators.

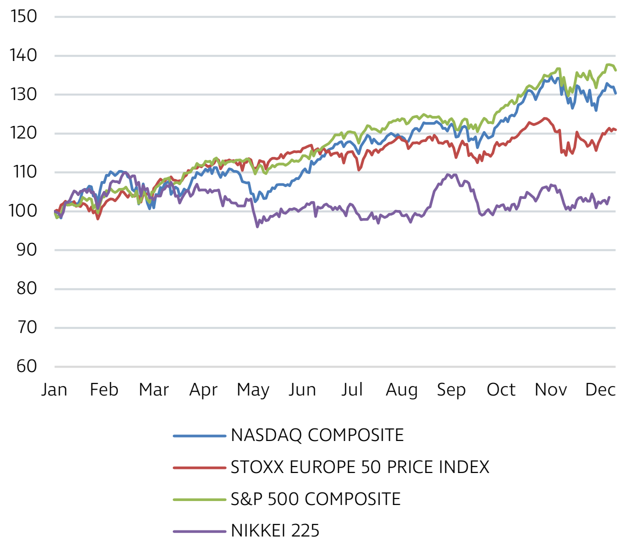
In the third quarter, the global economic recovery lost momentum. The German ZEW index marked its fourth consecutive decrease in September. This trend was also reflected in the ifo business climate index. Supply chain problems were partly responsible for this decline, with difficulties procuring commodities and primary products in particular holding back the German economy. The effects of these supply bottlenecks were also felt in the rest of the eurozone. In addition, a sharp rise in purchase prices was recorded. The economic data from the US sent mixed signals. The US labour market report in August disappointed many investors. By contrast, the sales figures for the US retail sector were a positive surprise. In general, however, the US economy also seemed to be losing steam.

China's growth momentum also slowed considerably. Its "zero-COVID strategy" repeatedly led to lockdowns of entire cities and ports. In addition, administrative investments were increasingly scaled back and the government continued its regulatory campaign. Debt problems at major land and real estate developers also negatively impacted the economy. The emergence of the Omicron variant of the virus brought another change in the starting situation. Some individual sectors were particularly hard hit by supply bottlenecks. In addition, rising inflation on the financial markets increasingly came under the spotlight. These led to losses in real income for private consumers and to market fears of an earlier tightening of monetary policy. At the end of 2021, inflation in the eurozone reached its highest levels since the introduction of the euro.

Stock and bond markets
The upward trend on the global stock markets continued in 2021. In the first half of the year, the major benchmark indices reached new records. The German stock index DAX marked a new all-time high of over 15,700 points in mid-June. Austria's ATX also reached its pre-crisis level again in March and approached its five-year high from 2018 at the end of June. The technology-heavy Nasdaq 100 also marked new highs. This was supported by the US bailout package, which spread great optimism on both sides of the Atlantic – despite the ongoing pandemic. The lack of alternatives to stocks in the low interest rate environment also provided a boost. Even the emerging fears of inflation could not dampen the optimism on the stock market.

In the third quarter, the stock markets continued their upward trend. Volatility on the financial markets increased considerably. In mid-August, the DAX moved above 16,000 points for the first time, representing an increase of almost 80 % compared to the low point of the coronavirus crisis in 2020. In September, the expansion of the benchmark index from 30 to 40 members was completed. The Nasdaq 100 broke past the 15,700-point mark for the first time in early September and the S&P 500 also marked a new all-time high. In November, the DAX reached another all-time high, but soon after it saw significant price declines up to the end of the year. The stock exchanges in New York, Tokyo and London showed a similar development. Technology stocks, which had been more stable for a long time, also could not escape the negative market trend at the end of the year.

Global stock market development in 2021 (in EUR)



(Source: Thomson Reuters Datastream)

On the bond market, rising inflation expectations had a significant impact, as they brought about an increase in bond yields and raised questions about central banks' possibilities for action. Despite increased inflation, market speculation on a rapid exit from the ultra-loose monetary policy was muted. However, market expectations factored in an earlier change in key interest rates. The major central banks confirmed their expansionary monetary policy and their willingness to tolerate higher inflation in the short term. In the first half of 2021, higher-risk bonds such as high-yield bonds and inflation-linked government bonds benefited in particular. In the second half of the year, inflation concerns increased and it was therefore primarily inflation-linked bonds that achieved a positive performance. However, the yields on 10-year German government bonds also rose steadily from early August on, before slipping back into negative territory in November. The US Federal Reserve prepared the market for a reduction in bond purchases first and then for initial interest rate hikes in December.

Commodities and currencies
In 2021, demand for oil recovered significantly from the pandemic shock in the previous year. At the beginning of the year, the price of a barrel of crude oil of the type WTI (West Texas Intermediate) was around USD 48, but by the end of June it was already above USD 70. This was primarily attributable to the ongoing economic recovery and the associated increase in demand for oil. After a few price dips in July and August – due to the spread of the Delta

variant of COVID – a barrel of WTI crude oil cost USD 76, its most expensive rate since October 2018. Although precious metals – especially gold – increased in value, they then lost these gains over the course of the year. As of the end of September, the gold price was still considerably below its level of just under USD 1,900 at the beginning of the year. By contrast, industrial metals continued their price upturn, with aluminium rising to just under USD 2,900 per ton as of the end of September.

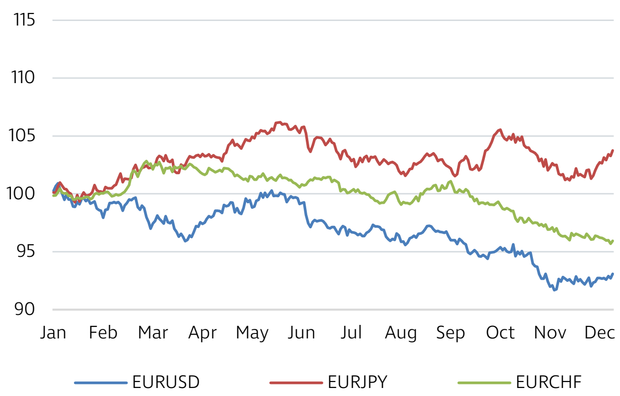
In the fourth quarter, the precious metal gold saw an increase on a dollar basis compared to the previous quarter, whereas the silver price changed only slightly. Global inventories of industrial metals decreased significantly, marking historic lows. This limited supply is now meeting with growing demand due to the boom in electric mobility and renewable energies.

Gold price development in 2021 (in USD)

(Source: Thomson Reuters Datastream)

With regard to currencies, both the US dollar and the Swiss franc benefited from being sought out as a safe haven at the beginning of the year. From mid-May onward, the US dollar decreased in value significantly against the euro. One reason for its depreciation was the decease in the interest rate differential. The depreciation trend in the US dollar intensified over the course of the year. The euro also gained strength against the Japanese yen on a sustained basis, particularly in the second half of the year. And last but not least, the euro also appreciated against the Swiss franc again in the second half of the year, almost reaching its level from the start of the year.

Currencies against the euro in 2021



(Source: Thomson Reuters Datastream)

Austria
According to the December forecast by the Oesterreichische Nationalbank (OeNB), the fourth wave of COVID-19 caused another setback to the recovery of the Austrian economy as of the end of 2021/start of 2022. The OeNB anticipates strong GDP growth of 4.9 % in 2021 (2020: -6.8 %). Austrian goods exports already significantly exceeded the pre-crisis level as of mid-2021, but were curbed by the global supply bottlenecks in the second half of the year. Rising infection figures and the German travel warnings again had a major negative impact on Austrian tourism in the 2021/2022 winter season.

The year 2021 was characterised by strong growth in employment combined with a shortage of specialist staff and a record number of vacancies. According to the Austrian Public Employment Service (AMS), the unemployment rate fell back to 8.1 % in 2021 after having risen to 10.1 % in the previous year. A decline of 6.0 % is anticipated by 2024.

According to the OeNB inflation forecast, the HICP inflation rate increased to 2.7 % in 2021 (2020: 1.4 %) due to rising energy prices and global supply bottlenecks. In 2022, energy prices, the introduction of the CO_2 tax as at 1 July and rising prices for non-energy-producing commodities will lead to a further increase.

The budget deficit improved significantly to 5.9 % of GDP in 2021. With the continuing recovery and the expiry of discretionary COVID-19 measures (particularly reduced working hours, fixed cost subsidies and revenue compensation), the deficit is expected to fall to 2.1 % in 2022 despite the tax reform. Due to strong economic growth, the government debt ratio will also already decrease slightly in 2021 compared to its historic high of 83.2 % of GDP in 2020. The debt ratio is expected to fall steadily to 75.5 % of GDP by 2024.

Vorarlberg
Vorarlberg industry remained stable despite the continuing COVID crisis, but it was and is facing major challenges due to a shortage of employees and rising energy and commodity prices. The results of the economic survey (business climate index) for the fourth quarter of 2021 showed stable sentiment despite uncertain future prospects. However, industry representatives need more planning security through further easing of the COVID-19 measures and targeted steps to get back to normal.

The business climate index of Vorarlberg industry – an average of expectations for the current business situation and that in six months' time – rose from 44 % in the previous quarter to 46.90 % in the fourth quarter of 2021.

The majority of the companies surveyed (78 %) rated the current development of the business situation as good. With regard to the development of the business situation over the next six months, the assessments are also positive, with 24 % anticipating an improvement.
55 % of the companies surveyed intend to expand their workforce in the next three months, and none of them are planning a reduction.

The current income situation is widely considered satisfactory, although the anticipated income situation in the next six months is likely to decline slightly. 29 % of companies anticipate decreasing profitability here, primarily due to rising commodity and energy prices.

The greatest obstacles to growth for Vorarlberg industry are firstly the prevailing shortage of employees and secondly the current heavily impaired supply chains, rising commodity prices and the limited availability of raw materials for production. As a key measure to improve staffing levels, better options for ensuring a good work-life balance are to be offered in future.

THE AUSTRIAN BANKING SECTOR

IN 2021

In addition to the continuing low or negative interest rates, the economic effects of the pandemic were also among the challenges for Austrian banks. In 2020 and 2021, which were dominated by the COVID-19 pandemic, the banking sector continued to fulfil its role of providing loans to the real economy and accepting deposits. Loans to private households and non-financial companies remained guaranteed at all times.

The recovery of the economy in 2021 is reflected in the sector's growing profitability. Banks' net profit for the period (after taxes and minority interests) rose significantly to EUR 5,899.35 million at the end of the third quarter of 2021 (Q3 2020: EUR 2,535.84 million). Net interest income of Austrian-based banks increased slightly to EUR 11,773.95 million in the third quarter of 2021 (Q3 2020: EUR 11,636.92 million), and net fee and commission income was also increased from EUR 5,341.75 million to EUR 5,893.35 million.

By the third quarter of 2021, the total assets of Austrian banks had risen to EUR 1,186.8 billion (30 September 2020: EUR 1,118.8 billion). In the past two challenging years, it was extremely important to ensure access to bank loans for non-financial companies and private households, which is why the ECB responded by adjusting longer-term refinancing operations.

The health policy measures to combat the pandemic massively limited private households' possibilities for consumer spending and therefore significantly influenced their savings behaviour. In 2020, private consumer spending slumped by 7.2 % in comparison to 2019. The increase in savings thus automatically resulted from the lack of consumer spending and should not disguise the fact that private households in Austria were facing major financial challenges. Current developments indicate an increase in consumer spending and consequently a decrease in the savings rate in 2021. According to the OeNB, the Austrian net savings rate, i.e. the ratio between savings and disposable income, came to 9.6 % of nominal disposable household income in 2021 (2020: 14.4 %).

Loans and advances to Austrian non-banks have consistently followed a slight upward trend in recent years and amounted to EUR 403,277.13 million in the fourth quarter of 2021 (31 December 2020: EUR 378,508.69 million).

The measures taken in the area of foreign currency loans continued to have a positive effect, as shown by the declining volume to private households and non-financial enterprises since 2008. As at 30 September 2021, loans to private households in foreign currencies (primarily in Swiss francs) totalled EUR 9,743.97 million (31 December 2020: EUR 11,232.84 million). According to the OeNB, the foreign-currency loans no longer represent a systemic risk to the banking system.

Solid capitalization

The capitalisation of Austrian banks has improved considerably since the outbreak of the financial crisis in 2008. In the third quarter of 2021, the figures remained stable compared to the previous year. As at 30 September 2021, the banks subject to reporting requirements in Austria reported a common equity tier 1 (CET1) ratio of 15.75 % (Q3 2020: 15.57 %) and a total capital ratio of 18.85 % (Q3 2020: 18.92 %).

Consolidated earnings situation of Austrian banks:

in EUR million	Q3 2021	Q4 2020	Q3 2020	Q4 2019	Q3 2019
Net interest income	11,774	15,458	11,637	15,589	11,598
Operating profit	7,480	8,220	5,735	8,264	6,467
Income after taxes	5,899	3,668	2,536	6,713	5,265

(Source: OeNB)

Deposit protection

The Austrian Federal Act on Deposit Protection and Investor Compensation at Banks (ESAEG), which came into force in August 2015, removed the government protection for a portion of the deposits from 2019. The legal conditions are based on the principle that the financial consequences of a default are to be borne by the banks themselves, not by tax-payers. Any payments in the event of a default are financed from a deposit protection fund that is endowed annually – until 2024 – by the protection schemes' member banks. Since 1 January 2019, the deposit guarantee scheme for Austrian equity banks, cooperative banks and mortgage banks has been implemented by Einlagensicherung AUSTRIA Ges.m.b.H. (ESA); the Raiffeisen banks have no longer been part of ESA since 1 January 2022.

On 1 March 2022, the Austrian Financial Market Authority prohibited Sberbank Europe AG from continuing its operations, with immediate effect. Customers therefore no longer have access to the accounts kept for them there. In accordance with Section 9 of the Austrian Deposit Protection and Investor Compensation Act (ESAEG), a deposit protection incident thus occurred

HYPO VORARLBERG'S
BUSINESS MODEL

For decades, the three pillars of "corporate bank", "housing bank" and "investment bank" have formed the basis on which Hypo Vorarlberg operates sustainably and successfully. The bank's core competencies consist particularly of residential construction financing, corporate customer business, investment advisory services and asset management. Whereas on its home market of Vorarlberg it acts as a universal bank offering its customers the full range of products and services, on its other core markets Hypo Vorarlberg focuses on selected niches.

Its clear business goal is to remain the number 1 on its home market of Vorarlberg. In the core markets outside Vorarlberg, the bank aims to achieve profitable growth. The Managing Board attaches great importance to a risk-conscious lending and business policy. Hypo Vorarlberg puts profitability and stability ahead of growth. The company takes care to ensure that value creation mostly remains in the regions in which it operates. Hypo Vorarlberg offers numerous employees secure jobs, thereby making an important contribution to the stability and performance of the economic system in its core markets.

In addition, Hypo Vorarlberg takes on social responsibility by supporting regional culture and sports with sponsorship and longterm partnerships. With the Hypo Vorarlberg charitable fund, the bank helps people who have experienced personal misfortunes to escape the worst financial hardship and supports various social institutions and regional cultural projects.

BUSINESS SEGMENTS

Corporate Customers
One focus of Hypo Vorarlberg's business activities is corporate customer business. Vorarlberg and the surrounding regions are characterised by a strong mid-market economic structure with a high export ratio. Hypo Vorarlberg supports these companies with all financial issues that are relevant to them. The bank has particular expertise in the areas of investment and project financing, subsidies, foreign services and working capital financing, as a provider of alternative forms of financing and in investment.

Private Customers
In the Private Customers segment, Hypo Vorarlberg offers extensive services with a focus on residential construction financing, pension advice and investment advice. Customers benefit from individual, flexible solutions as well as fair and transparent conditions. Regular customer recommendations motivate the bank to continue on the path it has taken in the future, too.

Private Banking and Wealth Management
Private Banking and Wealth Management supports wealthy individuals, their families and selected institutional customers. The varied product range is oriented towards customers' needs in all areas and offers contemporary solutions through use of flexible optimisation concepts adapted to the market situation in asset management, use of viable alternatives to the money market in the investment business, online banking enhancements in payment transactions and not least through tailored financing.

Treasury / Financial Markets
The Financial Markets segment is responsible for asset/liability management, refinancing of Hypo Vorarlberg and various services for customers and other groups within the bank. These include money, foreign exchange, interest rate derivatives and securities trading, for example. Hypo Vorarlberg does not engage in any significant proprietary trading that is not connected with customer business.

Corporate Center
The Corporate Center mainly groups together the subsidiaries and holdings that expand the bank's service range with banking-related products. These particularly include the real estate and leasing subsidiaries in Austria and Italy as well as the partidipations on comit Versicherungsmakler GmbH and Masterinvest Kapitalanlage GmbH.

CORE MARKETS

In addition to the headquarters in Bregenz and 14 other branches in Vorarlberg, Hypo Vorarlberg has additional locations in Vienna, Graz and Wels, as well as a branch in St. Gallen, Switzerland. With the opening of a new location in Salzburg in 2021, Hypo Vorarlberg intends to move into another future growth market. The new branch will focus on corporate customer and real estate project business for the time being. Details on the existing branches can be found on the last page of the annual report.

With its locations, Hypo Vorarlberg is represented in the key economic regions of Austria and in eastern Switzerland. Other core markets are located in southern Germany (Bavaria and Baden-Württemberg). Outside Vorarlberg, Hypo Vorarlberg focuses on niches in corporate customer business, real estate financing and investment advisory services.

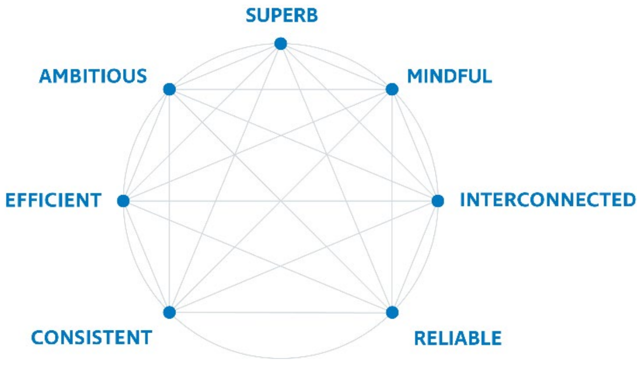
In addition to the traditional banking products, customers can also use other banking-related products and services in the real estate, leasing and insurance sectors. The subsidiary Hypo Immobilien & Leasing GmbH, based in Dornbirn and Vienna, offers expert knowledge under the Hypo Vorarlberg brand. Hypo Vorarlberg Leasing AG in Bolzano, Italy, develops leasing solutions and has additional branches in Como and Treviso.

Through the holding in comit Versicherungsmakler GmbH, customers of Hypo Vorarlberg benefit from independent insurance solutions. In the investment sector, Masterinvest KAG acts as a partner and fund manager for Hypo Vorarlberg. The company has been managing investment funds for over 30 years and customers benefit from its expertise in fund administration, risk management and reporting.

VALUES

Hypo Vorarlberg's seven core brand values provide guidance foremployees, managers and members of the Managing Board.

Hypo Vorarlberg's brand values



AMBITIOUS
We are continuously developing further while pursuing demanding goals and striving for top performance in the process.

SUPERB
We offer excellent services every day and are delighted that they are recognised and recommended.

MINDFUL
We are attentive, have a genuine interest and ensure a stable environment thanks to our forward-looking approach. We only do business that we can present to the outside world.

CONSISTENT
From the beginning we have remained true to ourselves, focused on our core business and pursued continuous, sustainable growth.

EFFICIENT
We seek intelligent solutions to enable us to achieve the best possible results as efficiently as possible.

INTERCONNECTED
We are a key part of the region and make a specific contribution to the well-being of the people and companies in our markets. Internally, we are interconnected and operate as one bank

RELIABLE
We have been a trustworthy partner for our customers, our employees and the state for over 120 years.

Together with its subsidiaries, Hypo Vorarlberg puts its identity and values into practice internally and externally. With a clear brand architecture and uniform design guidelines, it is expected that brand awareness in Vorarlberg and the other core markets will be strengthened and expanded.

Positioning

Based on its core competencies, Hypo Vorarlberg is positioned as follows: "As the entrepreneurial bank from Vorarlberg we offer corporate and private customers a forward-looking financial solution for those with purpose who are focused on achieving their objectives and aspirations through our proximity to people, our superior advice in a private setting and our excellent financial products."

MAJOR CHALLENGES

IN 2021

Persistently low and negative interest rates, new regulations and the ongoing digitalisation are putting the proven business model of Hypo Vorarlberg to the test. In this environment, the entire banking industry is challenged to develop and find new profitable areas of business. On top of this, there are still significant economic effects from the COVID-19 pandemic, although these had much less of an impact on the economy in Hypo Vorarlberg's market areas in 2021 than in the previous year. The Group's results in 2021 consequently recovered significantly again.

The most important foundation for Hypo Vorarlberg's stable economic development – particularly in this challenging environment – is its risk-conscious lending and business policy. The development of customer deposits and the financing volume conforms to the Managing Board's strategy, which puts profitability and stability ahead of growth, while the Bank continued to respond flexibly to enquiries about bridge loans and deferrals. This is also reflected in total assets, which were up slightly by 2.2 % year-on-year at TEUR 15,626,113 as at 31 December 2021 (2020: TEUR 15,296,768).

INCOME DEVELOPMENT

The persistently low or negative interest rates are a big challenge for a bank that traditionally operates mainly in customer business. Companies and private customers have been benefiting from low financing costs for a long time now, as shown by stable demand for credit again in 2021. As at the end of 2021, loans and advances to customers were above the previous year's level, partly due to coronavirus-related measures. Net interest income within the Hypo Vorarlberg Group rose by 12.6 % in 2021. Net fee and commission income also marked an increase of 9.7 % in the reporting year.

Hypo Vorarlberg's operating result developed positively in the reporting year, while the decreasing need for loan loss provisions as against the previous year and valuations also led to a significant increase in the result. In 2021, the Group's earnings before taxes amounted to TEUR 93,678 (2020: TEUR 48,825). Net income after taxes amounted to TEUR 66,810 in 2021 (2020: TEUR 37,331).

The individual items of the income statement in an annual comparison are as follows:

TEUR	2021	2020	Change
Net interest income	196,061	174,160	12.6 %
Net fee and commission in-	38,023	34,647	9.7 %
Administrative expenses	-98,746	-95,112	3.8 %
Loan loss provisions and impairment of financial assets	-15,296	-41,443	-63.1 %
Impairment of non-financial assets	-259	-2,808	-90.8 %
Earnings before taxes	93,678	48,825	91.9 %
Annual net income	66,810	37,331	79.0 %

Net interest income

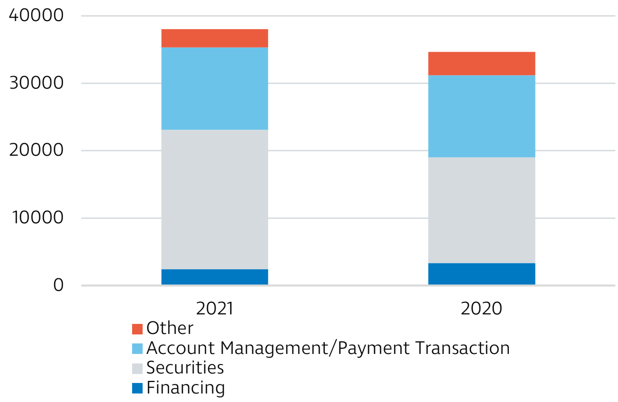
As in the previous years, interest-related business made a significant contribution to earnings, although the low or negative interest rate situation was still unchanged and margins were under considerable pressure. Loans and advances to customers increased across all measurement categories in the reporting year. New lending remained stable. As a result of reaching the TLTRO III programme's credit growth requirements, there was also a positive effect on net interest income. Net interest income was higher than in the previous year, rising by 12.6 % to TEUR 196,061 (2020: TEUR 174,160).

Net interest income
in TEUR

Net fee and commission income

Owing to the ongoing low interest rates, commission business continues to play an important role for the economic success of Hypo Vorarlberg. Fee and commission income rose by 12.9 % from TEUR 41,742 in 2020 to TEUR 47,135 in 2021, while at the same time fee and commission expenses increased year-on-year as a result of the securitisation transaction.

Structure/development in net fee and commission income
in TEUR



Due to higher income from securities business, Hypo Vorarlberg's net fee and commission income in the past financial year was 9.7 % stronger overall than in the previous year, amounting to TEUR 38,023 as at 31 December 2021 (2020: TEUR 34,647).

Other income/expenses

Other income includes income from operating leases, operating cost income or gains on the disposal of non-financial assets. As at 31 December 2021, total other income amounted to TEUR 28,142 (2020: TEUR 17,057). This strong increase was primarily due to the conclusion of hire-purchase contracts by our leasing customers.

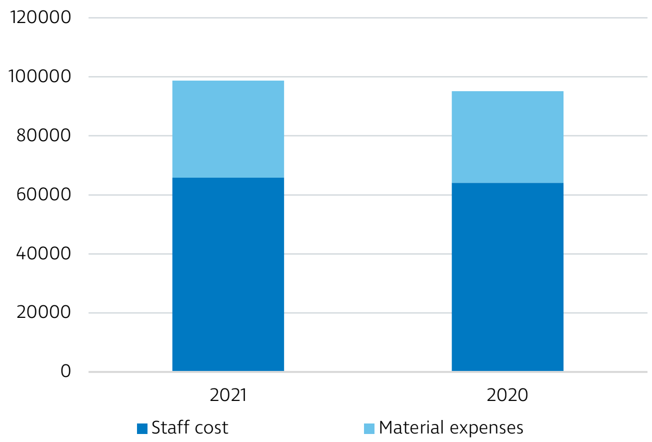
Other expenses increased significantly to TEUR 42,018 (2020: TEUR 23,912). This amount includes the stability fee of TEUR 2,676 (2020: TEUR 2,428). Due to the Commerzialbank deposit protection incident, expenses for Einlagensicherung Austria (ESA) were also higher in the reporting year. As also explained in relation to other income, the transactions under hire-purchase contracts of our leasing customers lead to a significant increase in this expense item.

Administrative expenses

The Managing Board pays great attention to keeping corporate structures as lean as possible in order to ensure that costs develop at a constant rate. Administrative expenses increased year-on-year by 3.8 % to TEUR 98,746 (2020: TEUR 95,112).

Material expenses rose slightly by 6.3 % year-on-year. Staff costs in the reporting year were somewhat higher than the previous year's level at TEUR 65,789 (2020: TEUR 64,100). The wages and salaries item included here increased from TEUR 47,950 to TEUR 49,672.

Structure/development in administrative expenses
in TEUR



The number of branches in Austria changed due to the opening of a new location in Salzburg and came to 19 as at the end of 2021. Details on the existing branches and subsidiaries of Hypo Vorarlberg can be found on the last page of the annual report.

Employees

Hypo Vorarlberg is an advisory bank and stands out because of its high-quality consulting and support for customers. In the interest of sustainable staff development, importance is attached to sound training and development. As a major employer in its core markets, the Hypo Vorarlberg Group employs almost 900 people. The average number of employees (full-time equivalents) in 2021 increased to 719.

Key employee figures (Hypo Vorarlberg Group)

	2021	2020	Change
Average number of employees (full-time equivalents)	719	694	3.6 %
of which apprentices	7	6	16.7 %
of which part-time	121	112	8.0 %
Employees at end of year (headcount)	876	877	-0.1 %
of which women	497	494	0.6 %
of which men	379	383	-1.0 %
Proportion of women (incl. apprentices)	56.7 %	56.3 %	0.7 %
Proportion of men (incl. apprentices)	43.3 %	43.7 %	-0.9 %
Average period of employment in years	12.2	11.8	3.4 %
Average age in years	41.2	40.3	2.2 %

Depreciation and amortisation

At TEUR 8,128, depreciation and amortisation in 2021 were down slightly by 0.7 % compared to the previous year (2020: TEUR 8,185).

Loan loss provisions and impairment of financial assets

Hypo Vorarlberg concentrates on the business areas whose mechanisms and rules it understands and only takes risks that it can manage on its own. Hypo Vorarlberg's additions to loan loss provisions are generally at a low level, which reflects the good credit rating of the customers in the bank's market areas. The Group has made adequate provisions for all discernible risks.

The allocation for valuation allowances in lending business was lower in 2021 than in the previous year. Since 2018, loan loss provisions have been recognised in accordance with the accounting logic of IFRS 9, which requires an impairment of the credit portfolio even with good credit ratings. Net loan loss provisions and impairment of financial assets amounted to TEUR 15,296 in 2021, whereas in 2020 they were at TEUR 41,443 due to the COVID-19 pandemic.

Impairment of non-financial assets

As at 31 December 2021, impairment of non-financial assets, including real estate valuation, decreased significantly to TEUR 259 (2020: TEUR 2,808).

Income before/after taxes

Hypo Vorarlberg closed 2021 very successfully. As a result of the economic upturn on its core markets, earnings before taxes almost doubled to TEUR 93,678 as at 31 December 2021 (2020: TEUR 48,825). Adjusted for taxes, earnings amounted to TEUR 66,810, representing a year-on-year increase of 79.0 % (2020: TEUR 37,331).

In addition to the current tax expense for corporate income tax, the amounts reported under taxes on income primarily relate to the deferred income tax assets and liabilities to be recognised under IFRS. Tax expenses for 2021 amounted to TEUR 26,868 (2020: TEUR 11,494).

Attributable to non-controlling interests

Of the net income after taxes of TEUR 66,810 (2020: TEUR 37,331), a total of TEUR 12 (2020: TEUR 157) is attributable to the minority shareholders of the Group subsidiaries.

Dividends of Hypo Vorarlberg Bank AG

Net profit according to UGB posted by Hypo Vorarlberg for the 2021 financial year amounted to TEUR 67,756 (2020: TEUR 36,390). After the allocation to reserves and by offsetting retained profit, accumulated profits available for appropriation totalled TEUR 4,434 (2020: TEUR 6,335). Subject to approval by the shareholders' meeting and taking account of further developments up until the time of this resolution, a dividend of EUR 14 per entitled share is proposed based on the share capital of TEUR 162,152. Total distribution is therefore TEUR 4,434 for 316,736 shares.

Key management indicators

	2021	2020	Change
Return on equity (RoE)	7.64 %	4.07 %	87.7 %
Cost/income ratio (CIR)	54.86 %	51.18 %	7.2 %
Return on total assets	0.61 %	0.33 %	84.8 %
Tier 1 capital ratio	15.98 %	14.92 %	7.1 %
Total capital ratio	18.65 %	17.81 %	4.7 %

BALANCE SHEET DEVELOPMENT

Changes in assets

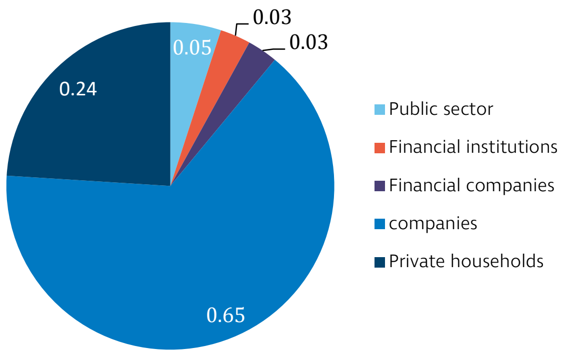
As a strong financing partner for the people and companies in its core markets, loans and advances to customers constituted the largest item of Hypo Vorarlberg's assets. In the 2021 financial year, Hypo Vorarlberg's total consolidated assets increased again slightly and amounted to TEUR 15,626,113 as at 31 December 2021, representing an increase of 2.2 % compared to the previous year's reporting date (2020: TEUR 15,296,768). Coronavirus-related deferrals and bridge loans decreased again compared to the previous year. However, higher credit demand and lending nonetheless led to an increase in loans and advances to customers. The increase in the OeNB tender in particular contributed to a rise in total assets.

Financial assets
As at 31 December 2021, loans and advances to customers across all measurement categories totalled TEUR 10,378,665
(2020: TEUR 10,340,227), of which the largest proportion was accounted for at amortised cost.

The total volume of financing with deferrals still granted amounted to TEUR 90,676 as at 31 December 2021 (2020: TEUR 549,094). The volume of COVID-19-induced financing (new and bridge financing) came to TEUR 88,357 by the reporting date (2020: TEUR 93,478).

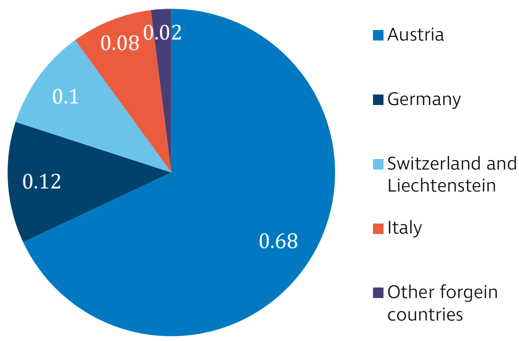
In the reporting year, loans and advances to banks increased significantly by 38.6 % to TEUR 314,964 (2020: TEUR 227,250). This increase was attributable to short-term investments on the money market. Financial assets also include bonds, whose volume amounted to TEUR 2,687,772 (2020: TEUR 2,825,583) as at 31 December 2021.

Loans and advances to customers and banks – by sector



This item totalling TEUR 10,693,629 across all measurement categories primarily includes loans and advances to companies and private households and was 1.2 % higher than in the previous year (2020: TEUR 10,567,477). Loans and credits in the public sector and to banks decreased compared to 2020, while the other sectors saw an increase.

Loans and advances to customers and banks – by region



The largest part of the lending business of Hypo Vorarlberg is in Austria with a share of 68 %, followed by Germany with 12 %. The remaining loans and advances to customers are primarily aimed at customers from Switzerland and Italy.

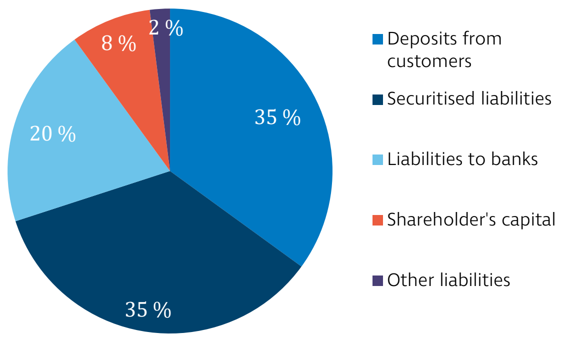
The issue of Swiss franc loans has been severely limited in recent years, primarily in the Private Customers segment. As at 31 December 2021, Hypo Vorarlberg reported loans and advances to customers in Swiss francs totalling TEUR 1,335,364 (2020: TEUR 1,315,429). Most of these loans and advances to customers relate to the St. Gallen branch and thus do not represent a foreign currency risk. The cross-border commuters in Vorarlberg are also to be taken into account, which further reduces the economic view of this risk. The proportion of foreign-currency financing in the Private Customers segment (predominantly in CHF) is steadily decreasing.

Cash and balances
The cash reserve includes cash on hand and the balances with central banks. This item increased from TEUR 1,338,622 in the previous year to TEUR 1,806,556 in 2021, mainly due to higher balances with central banks.

Trading assets
In the reporting year, trading assets decreased from TEUR 122,536 to TEUR 86,610 due to the valuation of derivatives. The volume of derivatives, which were predominantly concluded for economic hedging purposes and are not used for determining hedge accounting, also declined.

Changes in liabilities
There was an increase of 3.3 % in financial liabilities at amortised cost – which account for the largest part of the balance sheet liabilities – to TEUR 13,298,923 (2020: TEUR 12,874,124). This includes customer deposits, liabilities evidenced by certificates and liabilities to banks.

Balance sheet structure/balance sheet liabilities



This graph shows the sustainably established and balanced refinancing structure of Hypo Vorarlberg. Of the total balance-sheet liabilities of TEUR 15,626,113, a sum of TEUR 5,418,127 was attributable to deposits from customers (savings, demand and term deposits) as at 31 December 2021, representing a year-on-year decrease of 4.1 %.

In the reporting year, liabilities evidenced by certificates – which are primarily mortgage bonds and bonds – increased from TEUR 5,186,498 to TEUR 5,521,955.

For liquidity reasons, liabilities to banks increased significantly compared to the previous year and amounted to TEUR 3,030,584 as at 31 December 2021 (2020: TEUR 2,844,254).

Shareholders' equity increased year on year by 4.6 % to TEUR 1,290,390 (2020: TEUR 1,233,232). The remaining share of liabilities amounted to TEUR 365,057 (2020: TEUR 385,813).

CHANGES IN OWN FUNDS

Composition of own funds according to CRR and capital ratios

TEUR	2021	2020	Change
Total risk exposure amount	8,459,291	8,645,079	-2.1 %
Common equity tier 1 capital (CET1)	1,301,835	1,239,951	5.0 %
Additional tier 1 capital (AT1)	50,002	50,003	0.0 %
Tier 1 capital (T1)	1,351,837	1,289,954	4.8 %
Tier 2 capital (T2)	225,957	249,973	-9.6 %
Own funds	1,577,794	1,539,927	2.5 %
CET1 capital ratio (CET1)	15.39 %	14.34 %	7.3 %
Surplus of CET1 capital (CET1)	921,167	850,923	8.3 %
T1 capital ratio (T1)	15.98 %	14.92 %	7.1 %
Surplus of T1 capital (T1)	844,280	771,250	9.5 %
Total capital ratio	18.65 %	17.81 %	4.7 %
Surplus of total capital	901,051	848,321	6.2 %

The Managing Board is ensuring a sound and sustainable capital structure at Hypo Vorarlberg through ongoing optimisation measures.

As at 31 December 2021, the share capital of Hypo Vorarlberg amounted to TEUR 162,152, as in the previous year.
Overall, the core capital (T1) increased to TEUR 1,351,837 as at 31 December 2021 (2020: TEUR 1,289,954), while the eligible supplementary capital (T2) fell to TEUR 225,957 (2020: TEUR 249,973).

As at 31 December 2021, total own funds of the Hypo Vorarlberg Group increased by 2.5 % compared to the previous year to TEUR 1,577,794 (2020: TEUR 1,539,927). They were thus well in excess of the minimum required by law (CRR). The total capital ratio rose to 18.65 % as at the end of 2021 (2020: 17.81 %). The core capital ratio (T1) also rose to 15.98 % as at the end of year (2020: 14.92 %) and the common equity tier 1 (CET1) ratio likewise rose from 14.34 % to 15.39 %, as the total risk exposure also decreased overall from TEUR 8,645,079 to TEUR 8,459,291.

Hypo Vorarlberg also intends to increase its capitalisation further in the future in line with the Managing Board's plans for sustainable growth and the expectation of new regulatory requirements.

DISCLOSURE IN ACCORDANCE WITH SECTION 243A OF THE AUSTRIAN CORPORATE CODE (UGB)

Share capital and share denominations

Hypo Vorarlberg’s subscribed capital is unchanged at TEUR 162,152. As at 31 December 2021, the number of no-par value shares issued was unchanged at 316,736.

Shareholder structure

The percentage of Hypo Vorarlberg's capital as at 31 December 2021 is as follows:

Shareholders	Total shares
Vorarlberger Landesbank-Holding	76.8732 %
Austria Beteiligungsgesellschaft m.b.H.	23.1268 %
- Landesbank Baden-Württemberg	15.4179 %
- Landeskreditbank Baden-Württemberg Förderbank	7.7089 %
Share capital	100.0000 %

COVID-19 PANDEMIC / CRISIS MANAGEMENT

The outbreak of the coronavirus (COVID-19) at the start of 2020 and the associated national and international measures to contain the spread of the virus had impacted the economy very unexpectedly. This consequently led to declines on the financial, goods and services markets. In the second phase of the pandemic, the situation was no longer completely new to companies, with the effect that economic uncertainty and the economic development in 2021 were different. In 2021, the COVID-19 crisis primarily affected sectors that were directly affected by the government restrictions and changes in consumers’ habits, or were connected with these through supply chains.

The global stock and bond markets also reacted very sensitively at times, but the stock exchanges recovered again when viewed over a longer period. Since the beginning of the pandemic, there has been unprecedented growth in technology stocks. The high level of demand for social distancing solutions also brought about strong impetus for digitalisation.

Effects in Austria

The infection figures in Austria developed very differently from region to region. After the social restrictions and the major impact on the domestic economy in the first year of the pandemic, the situation in Austria eased at times in 2021, due partly to progress on vaccinations. The situation intensified again in the autumn and winter months due to the emergence of new, highly infectious variants of the virus. Another lockdown was thus imposed in Austria in November 2021, which was subsequently extended for unvaccinated individuals. Due to the high infection rates, the government tightened its measures and in many areas (services involving close contact, shops, etc.) access was possible only for those who had been vaccinated or had recovered from COVID. On 5 March 2022, steps were taken to reopen the economy and most measures were lifted.

A total of four lockdowns have been imposed in Austria since the outbreak of the pandemic, putting considerable pressure on the domestic economy at times. The sectors that were most affected by the crisis were hotels and catering – partly due to the travel restrictions imposed – followed by retail. The economy was supported by subsidies from the specially created COVID-19 crisis fund, which included measures such as fixed cost subsidies, revenue compensation, default bonuses and a hardship fund. Payments from this fund amounted to approximately EUR 15.1 billion in 2021.

Due not least to several government support measures, the Austrian economy has rapidly overcome the COVID-19 crisis since summer 2021. In addition to stronger private consumer spending, the economic upturn was also attributable to dynamic investment activity driven by government incentives and increasing capacity constraints, as well as to substantial growth in exports. Austrian exports benefited from the recovery of the global economy. Buoyant industrial activity dominated the general economic expansion in 2021. In 2022, by contrast, market services are expected to make an above-average contribution to growth, especially due to the anticipated recovery in tourism.

Crisis management/measures at Hypo Vorarlberg
At Hypo Vorarlberg, the 2021 financial year was still dominated by dealing with the COVID-19 pandemic. To protect employees and customers, the crisis team at Hypo Vorarlberg continued to address the situation regularly and adopted several measures to contain the further spread of the virus, to ensure that the Bank and the Group maintain their capacity to act, and to provide the best possible protection for customers and employees. Essential departments were separated in spatial terms (team splitting) during times of rising infection rates, and a large number of employees could work remotely.

As banks are among the systemically relevant service providers, Hypo Vorarlberg’s branches were particularly called upon to continue their operations despite the coronavirus restrictions. Great attention was always paid to ensuring a functioning supply of banking services (especially cash) for customers. Personal contact and proximity to customers suffered from the restrictions in the past two years. Nonetheless, Hypo Vorarlberg continued to succeed in supporting its customers well, and the advisors offered as many appointments as possible by telephone or video conference, which was well received.

In economic terms, the top priority for Hypo Vorarlberg's crisis management is to maintain its customers' and business partners' economic stability. Only then will it be possible to avoid permanent damage to companies and customers in the market areas and thus also to the Group’s economic development. Together with the regional government, other regional banks, the Chamber of Commerce and the Chamber of Labour, support measures were adopted with minimum bureaucracy, such as suspending loan repayments and offering bridge loans for companies and individuals affected by the crisis.

Hypo Vorarlberg’s crisis team still holds regular meetings to evaluate the situation and implement decisions at short notice.

Events of material importance after the reporting date
On 24 February 2022, Russia launched a military attack on Ukraine. The situation has continued to intensify since then, with the capital city Kyiv increasingly being targeted and Russia’s nuclear forces also put on alert. President Putin has agreed to start negotiations and specified conditions under which he would stop the war, but these are currently not acceptable to Ukraine. According to UN estimates, around two million people had already fled to Ukraine’s neighbouring countries as of mid-March. The World Bank and the IMF have committed to providing aid packages in the billions for Ukraine.

Western countries responded to Russia’s invasion with various sanctions: Starting from 28 February, payment transactions with Russia and with Russian banks were blocked and conversions from Russian roubles were no longer possible. Trading in Russian securities has also been limited or completely suspended. Since 1 March, trading in Russian certificates (ADRs/GDRs) on all stock exchanges has no longer been possible, and the settlement of Russian securities on the Russian market as well as dividend, interest and principal payments for all securities in RUB have been suspended until further notice. The EU member states also agreed on 1 March to exclude seven Russian banks from the international payment system SWIFT. Russia was downgraded by the rating agencies, and a few days later the ratings for Ukraine and Belarus were also lowered significantly.

Effects on Hypo Vorarlberg
In addition to the generally imposed sanctions, Hypo Vorarlberg has taken appropriate measures to minimise risk.

The economic effects of the war on the Hypo Vorarlberg Group are currently difficult to estimate. Due to its strategic focus on Austria, Switzerland, Germany and northern Italy, the company has no significant Russia exposure and is currently affected only indirectly, for example through the stock exchange situation, payment transactions and increased energy and commodity prices. As many Austrian companies have economic ties with Russia and Ukraine, it is not yet clear at present how and to what extent the sanctions will impact the domestic economy.

Sberbank deposit protection incident
On 1 March 2022, the Austrian Financial Market Authority prohibited Sberbank Europe AG from continuing its operations, with immediate effect. Customers therefore no longer have access to the accounts kept for them there. In accordance with Section 9 of the Austrian Deposit Protection and Investor Compensation Act (ESAEG), a deposit protection incident thus occurred. Hypo Vorarlberg is affiliated with Einlagensicherung Austria.

DEVELOMENT
BY SEGMENT

CORPORATE CUSTOMERS
As an entrepreneurial bank, Hypo Vorarlberg primarily positions itself within the Corporate Customers segment as a banking partner for real estate companies, industrial companies and mid-sized businesses. This segment also supports self-employed persons and municipal customers. With its particular expertise in investment and project financing, real estate financing, developer financing, subsidies, foreign services and working capital financing, Hypo Vorarlberg has established itself in its core markets of Vorarlberg, Vienna, Styria, Upper Austria, Southern Germany and Eastern Switzerland and is the leading corporate bank in Vorarlberg. Business with corporate customers in the neighbouring region is to be developed with a new location in Salzburg.

Despite the continuing COVID-19 pandemic, corporate customer business at Hypo Vorarlberg posted a very satisfactory performance in the 2021 financial year. The lending volume was increased, while net interest income and net fee and commission income marked above-average increases. The significant increase in interest income in 2021 was mainly attributable to the one-time receipt of TLTRO III premiums in that financial year. Risk costs decreased significantly again in comparison to the previous year, as higher provisions were already recognised in 2020 due to the pandemic.

Despite the COVID-19 crisis, the general economic development on Hypo Vorarlberg's core markets in 2021 was very good. This led to sustained strong demand for banking services, particularly loans. Hypo Vorarlberg accordingly benefited from this high demand from corporate customers. Even in sectors that were particularly hard hit by the pandemic, there were no significant increases in risk costs in 2021. This was partly due to the government assistance measures, particularly in tourism.

Overall, loans and advances to customers increased to TEUR 6,906,542 (2020: TEUR 6,878,627). The Corporate Customers segment generated total earnings before taxes of TEUR 65,720 in 2021 (2020: TEUR 31,990). Net interest income amounted to TEUR 111,637 as at 31 December 2021, up 10.2 % as against the previous year (2020: TEUR 101,313). Net fee and commission income increased slightly as against 2020 to TEUR 15,918 (2020: TEUR 14,459).

PRIVATE CUSTOMERS
In the Private Customers segment, Hypo Vorarlberg offers extensive services with a focus on residential construction financing, securities investment, pension advice and investment advice. Customers benefit from individual, flexible solutions as well as fair and transparent conditions, as the bank's wide range of services is based on the needs in all areas. The focus is not on selling products, but rather on providing an individual overall solution that is tailored to the specific customer. Regular recommendations motivate the Managing Board to continue on the path it has taken in the future, too.

One focus of Hypo Vorarlberg's private customer business is residential construction financing. The bank achieved an excellent result in this area in 2021, helping fulfil around 2,000 housing dreams in the reporting period – more than ever before. Compared to the previous year, the total volume of loans to private individuals was increased by TEUR 139,406 to TEUR 2,291,917 (2020: TEUR 2,152,511).

In investment business, the historically low level of interest rates remained the central issue, still making it harder for investors to find returns. Many customers therefore increasingly invested in securities, some of them for the first time. Despite the coronavirus-related restrictions, Hypo Vorarlberg's sales activities were successful.

In 2021, Hypo Vorarlberg generated net interest income of TEUR 30,753 in the Private Customers segment, which represented a significant decline against the previous year (2020: TEUR 34,347). At TEUR 23,654, net fee and commission income in 2021 was well above the previous year's figure of TEUR 19,255. Overall, Hypo Vorarlberg generated earnings before taxes of TEUR 8,171 in the Private Customers segment in 2021 (2020: TEUR 8,794).

Ongoing digitalisation poses new challenges for business with private customers. Hypo Vorarlberg sees this development as an opportunity to adapt its range of products and services to customer requirements and to the latest technology. At the same time, the bank is committed to its branches.

In the special "FREIRAUM" branch, there is also a focus on testing new digital applications using state-of-the-art tools (screens, iPads). The Bank is planning further investments in competence centres in the future, i.e. in the expansion of larger locations and the integration of smaller branches so as to offer customers the best advice all in one place, as digital solutions still will not be able to replace personal advice in the future – particularly when it comes to large-scale financing or a major investment.

The FMVÖ Recommender 2021 award for "Excellent Customer Focus" is an endorsement of the path that Hypo Vorarlberg has taken as an advisory bank and reflects the high level of satisfaction among its customers and their willingness to recommend it.

Private Banking and Wealth Management
Private Banking and Wealth Management supports wealthy individuals, their families and selected institutional customers. The varied product range is oriented towards customers' needs in all areas and offers contemporary solutions through the use of flexible concepts adapted to the market situation in asset management and the use of viable alternatives to the money market in the investment business. When it comes to the products and solutions, the greatest assets are the high degree of professional qualification and enthusiastic commitment of the consultants and employees.

Asset Management
Business in Asset Management developed very positively in the 2021 reporting year. At the end of 2021, total assets under management amounted to TEUR 987,104 (2020: TEUR 740,713). This year-on-year change was due roughly half to price increases and half to net inflows throughout the year. A total of 2,270 mandates were managed as at 31 December 2021.

As a result of the increased awareness of sustainability among investors, they have a growing interest in evaluating their investments in terms of sustainability. Demand for investment products that incorporate ESG factors (environment, society, good governance) increased enormously in the past year. As an asset manager, Hypo Vorarlberg has set itself the goal of taking account of certain criteria with regard to environmental, social and governance-related sustainability (ESG). Hypo Vermögensverwaltung integrates these ESG factors in its selection of target funds and of individual securities. It is primarily exclusion and quality criteria that are applied when selecting securities, meaning that the asset management strategies and Hypo funds currently on offer take account of environmental and social aspects as defined in Article 8 of Regulation (EU) No. 2019/2088 a.

All Hypo Vorarlberg funds and asset management AIFs have now been awarded the yourSRI transparency seal (SRI = socially responsible investment), including one of Austria's biggest equity fund of funds, which is used in almost all the Bank's wealth management strategies. This seal is awarded by FE Fundinfo in Liechtenstein, an independent consulting and research company with a focus on sustainable investments.

In November 2021, the Elite Report (Munich) awarded Hypo Vorarlberg's Wealth Management department the highest grade "summa cum laude" for the eleventh time in a row. This accolade is an endorsement of our chosen path of being a bank that offers individual and high-quality advice while at the same time creating innovative, contemporary products and solutions to overcome the challenges of the capital markets and regulations as well as enormous overall cost pressure.

FINANCIAL MARKETS/TREASURY

The environment for the financial markets was very challenging again in 2021, but was very positive for the Financial Markets business segment overall. The measures taken by central banks and national governments stabilised the financial markets and led to a profitable environment.

In spring 2021, the drawdown under TLTRO III was increased from TEUR 2,500,000 to TEUR 2,800,000, and the required net credit growth was exceeded significantly over the course of 2021. To secure liquidity in the long term, two public benchmark bonds and a large number of private placements were issued on the national and international capital market. The steepening capital market curve and continued low money market interest rates had a positive impact on the maturity structure contribution and net interest income in the Treasury business segment.

APM & Investments

A net volume of approximately TEUR 303,063 was invested in bonds by the APM & Investments unit in 2021. The weighted remaining term of these new investments was 8.0 years (previous year: 5.0). The average asset-swap spread of the securities purchases was 41 bp (previous year: 42), while the average rating for the new purchases was A+.

The year 2021 was characterised by very narrow credit margins. Major decision-making criteria for new investments included LCR or ECB eligibility and eligibility for the public cover pool.

Funding & Investor Relations

In the reporting period, 22 new issues (not including retained covered bonds) with a total volume of around TEUR 855,788 were placed. These included two publicly placed bonds with a volume of approximately TEUR 693,000. The larger transaction related to a mortgage-backed mortgage bond of TEUR 500,000. The other issue with a value equivalent to approximately TEUR 193,000 was placed on the CHF market.

A total of 20 private placements with a volume of around TEUR 162,793 were issued, 13 of which were documented via the EMTN programme, six as registered bonds and one as a promissory note loan.

Money, foreign exchange and interest rate derivatives trading

Between the end of 2020 and the end of 2021, readily accessible short-term liquidity increased significantly by around TEUR 400,000 to a level of around TEUR 1,600,000. In addition, extensive collateral is available for repo and tender transactions in money market trading. Hypo Vorarlberg thus has strong liquidity buffers. As usual, there was a very wide fluctuation range for readily accessible short-term liquidity. This was chiefly due to large-volume transactions such as the issue of the mortgage-backed mortgage bond, renewed participation in a TLTRO III operation, and major loan disbursements. In foreign exchange and interest rate derivatives trading with customers, there was a slight decline both in income and in the number of transactions.

Securities Customer Trading

Customer securities turnover amounted to approximately TEUR 1,459,000 in 2021. As against the previous year, customer securities turnover declined by around TEUR 242,970 or 14.28 %. This decrease was due to the effects of the COVID-19 crisis on the markets in the previous year, which led to an increase in securities turnover in the first half of 2020.

Fund Service

The custodian bank volume under management increased from TEUR 9,067,000 to TEUR 10,416,000 on an annual basis, corresponding to growth of TEUR 1,349,000 or 14.88 %. In the past reporting period, three special funds (AIFs) and two mutual funds (UCITS) were launched. In addition, there were two internal fund mergers with a third AIF fund, an acquiring fund merger with a third-party bank and a transferring merger with a third-party bank.

Swap Group

As at 31 December 2021, the Swap Group managed 1,268 swaps, interest rate options and currency options with a nominal volume of TEUR 10,408,561. This corresponds to an annual increase of 39 swaps/options and a rise in the nominal volume of TEUR 455,317. In the same period, the value of cash collateral changed from TEUR -29,463 to TEUR -106,401, with a negative balance indicating collateral provided at the counterparty.

CORPORATE CENTER

In addition to the business segments mentioned above, the Corporate Center item includes the refinancing of holdings. This segment's earnings contribution amounted to TEUR 565 in 2021 (2020: TEUR 705).

SUBSIDIARIES
AND HOLDINGS

HYPO IMMOBILIEN & LEASING GMBH
Hypo Vorarlberg's entire Austrian and Swiss leasing and real estate business is combined in the subgroup Hypo Immobilien & Leasing. Hypo Immobilien & Leasing GmbH offers services within the Group and to its customers ranging from real estate brokerage through property valuations, construction and property management to facility management. It offers financing solutions for private customers, corporate customers and the public sector in the areas of vehicle, movables and real estate leasing. Hypo Immobilien & Leasing GmbH has its headquarters at the Hypo Office in Dornbirn.

Real estate brokerage services are offered at the locations in Bregenz, Dornbirn, Bludenz and Feldkirch. Leasing customers are supported by specialists in Dornbirn and Vienna. Marketing activities in the Austrian leasing market are carried out by consultants at the offices of Hypo Vorarlberg, while selected eastern Austrian customers and the Swiss leasing market are managed by an in-house sales team. There is also a property valuation team based in Vienna and in Vorarlberg. The team carries out valuations for Hypo Vorarlberg, especially for financing purposes. As at 31 December 2021, the company had a headcount of 46 employees (2020: 47).

Hypo Immobilien & Leasing GmbH continued the initiated digitalisation project in the reporting year. This involved further digitalising internal processes, improving services for customers and equipping the workplaces for modern, mobile work. The final "Workplace of the Future" project will enable employees to work together even more easily in the future – including when working from home.

For 2021, Hypo Immobilien & Leasing GmbH reported earnings before taxes of TEUR 872 (2020: TEUR 1,008). The consolidated earnings before taxes of the companies included in the consolidated financial statements and belonging to the real estate and leasing subgroup came to TEUR 4,803 as at 31 December 2021 (2020: TEUR 3,526).

HYPO VORARLBERG LEASING AG, BOLZANO
HYPO VORARLBERG IMMO ITALIA GMBH, BOLZANO
Hypo Vorarlberg Leasing AG is headquartered in Bolzano and develops leasing solutions in the real estate and mechanical engineering sectors. The company has offered its products and services on the Northern Italian market for 30 years. The subsidiary also has branches in Como and Treviso.

In 2021 the Italian leasing market posted a recovery in new business, which grew by 25.6 % from EUR 22.9 billion to a total of EUR 28.78 billion. Real estate leasing, which is the most important area for Hypo Vorarlberg Leasing AG, increased by 9.2 % to EUR 2.97 billion throughout Italy. Machinery leasing particularly benefited from the upturn, growing by 47.9 %. In this environment, Hypo Vorarlberg Leasing generated a new volume of EUR 65.4 million in 2021 (2020: EUR 60.9 million). As in previous years, particular emphasis was placed on top-quality lessees, valuable lease assets and appropriate advance payments and collateral. The focus was on real estate and movables leasing projects in Trentino/South Tyrol and in Lombardy.

The number of customers claiming a deferral of lease instalments in accordance with the government COVID-19 decree Art. 56 decreased significantly over the course of 2021. After current interest on the deferred contracts again had to be paid from July 2021 onwards, the government moratorium expired at the end of the year. Great attention will therefore be paid in 2022 to the management of the contract portfolio after the expiry of the deferrals granted.

The digital customer portal "MyHypoLeasing" was successfully introduced in 2021. This not only offers the benefits of direct web-based customer access, but also provides for the implementation of digital signatures for contractual documents.

In 2021, Hypo Vorarlberg Leasing AG generated net interest income of TEUR 13,319 (2020: TEUR 15,780). Profit before taxes amounted to TEUR 2,797 (2020: TEUR 2,222). The focus was on consistent management of the existing portfolio and efficient realisation of recovered lease assets.

A new volume of around TEUR 105,000 is targeted in 2022, taking account of strict risk criteria. Major initiatives such as significantly increased involvement in machinery and equipment leasing ("Industry 4.0") and intensive support for the Trentino market zone are intended to facilitate the targeted increase in new contracts.

Hypo Vorarlberg Immo Italia GmbH
Demand for commercial real estate in northern Italy remained surprisingly constant in the past year. At the same time, the supply decreased in comparison to previous years. This positive environment led to a stable price trend. Hypo Vorarlberg Immo Italia GmbH increased its sales volume in 2021, selling a total of 32 properties for consideration of TEUR 10,500.

With regard to the rented properties, the level of rent losses due to the COVID-19 crisis was lower than originally feared. The average rental yield was increased again year-on-year and now comes to 7.8 %. Investments were made in some properties to increase their attractiveness on the market. These selective investments will also be continued in the coming years.

The company again posted negative earnings before taxes of TEUR -1,070 in 2021 (2020: TEUR -2,647).

COMIT VERSICHERUNGSMAKLER GMBH
In 2020 the former Hypo Vorarlberg subsidiary Hypo Versicherungsmakler GmbH was merged with "EXACTA"-Versicherungsmakler GmbH. At the same time, the company name was changed to comit Versicherungsmakler GmbH. The new company is now the biggest regional insurance broker and can therefore cope better with the growing market and competitive pressure and the stricter regulatory conditions. Hypo Vorarlberg holds a 40 % share in comit Versicherungsmakler GmbH.

OUTLOOK

FOR THE 2022 FINANCIAL YEAR

CURRENT ENVIRONMENT

Easing of containment measures and the accompanying progress made in vaccination in connection with the COVID-19 pandemic resulted in a strong upturn across the Austrian economy from the middle of 2021. After the strong recovery of global and national economic growth in the summer, there was a considerable slowdown to the end of 2021. However, at the beginning of the year, OeNB expected that in 2022 the Austrian economy would recover quickly and grow by 4.3 %. The growth will be driven primarily by private consumption, which is set to increase as a result of pent-up demand, utilisation of excess savings and the tax reform. Potential negative effects from the recently discovered Omicron mutations and the Ukraine war which broke out at the end of February 2022 are not included in the forecast, but represent a significant downside risk.

At the beginning of the year, the OeNB anticipated an HVPI inflation rate of only 3.2 % for 2022. However, the additional increase in energy and raw material prices as a result of the Ukraine war and far-reaching sanctions against Russia is likely to further fuel inflation. According to the Statistik Austria flash estimate, in February 2022 the inflation rate in Austria reached a record year-on-year monthly figure of 5.9 %. The ECB also strongly increased its inflation forecast for the eurozone in March and now expects an average inflation rate of 5.1 % for 2022.

Added to this is climate change, one of the greatest challenges of our time. In 2021, the ECB provided an undertaking to support the EU's climate objectives (to the extent that they can be aligned to the target of price stability). In 2022, the CO_2 pricing resolved in the context of the ecological and social tax reform will impact energy prices, with consumer prices for super, diesel, heating oil and gas rising as a result from July 2022.

PRIORITIES FOR 2022

As things currently stand, it can be assumed that the effects of the COVID-19 pandemic will no longer play a key role in the 2022 financial year. However, the Ukraine war can be expected to impact the global and national economy in many ways, the extent of which cannot yet be estimated with sufficient certainty at present. Hypo Vorarlberg's top priority will still be to maintain its customers' and business partners' economic stability and to take measures for affected companies where necessary.

The Managing Board will continue to pursue the proven, broad-based business model, although the ongoing low and negative interest rates and new legal requirements – such as CRR II and CRD V and the implementation of the EU action plan for financing sustainable growth – pose a large challenge for the industry. Digitalisation and changing customer requirements are also still requiring banks to adapt their services and products.

To ensure Hypo Vorarlberg's profitability in the long term, its presence in growth markets outside the home market of Vorarlberg is to be increased, including with the new location in Salzburg that was opened in the previous year. The bank also follows trends and new developments so that its services and processes can continuously be adapted to the new technological possibilities.

As the leading corporate bank in Vorarlberg, Hypo Vorarlberg will continue to supply financing to businesses in its core markets in the future. Based on the positive economic environment, Hypo Vorarlberg expects to see continued strong demand for banking services and products among corporate customers in 2022. Alongside lending business, the areas of payment transactions and investment business with corporate customers are to be stepped up in particular.

The Bank is very popular in the private customers segment thanks to its competent and committed employees. Closeness to customers and personal consulting are an important part of the corporate philosophy – something that is also noted and appreciated by customers. To keep ensuring high-quality advice, the Group will also continue to invest in education and training for its employees in 2022. In private banking, Hypo Vorarlberg continues to focus on its in-house asset management and funds.

The Managing Board remains committed to the branches as an important sales channel. At the same time, the bank is continuously developing its online services and reflecting on how its locations can be structured sustainably. Due to the advancement of digitalisation and changing customer behaviour Hypo Vorarlberg is called upon to find the best possible way to link personal consulting with digital services.

With the re-integration of the IT and an adapted IT strategy 2021, the bank is moving step by step to a new (agile) way of working between specialist departments and IT. In-house IT is also an important condition for a corresponding speed of innovation so that new things can be trialled and implemented considerably more easily as a result of proprietary development work. In addition, Hypo Vorarlberg is placing an accent on developing new products and services in a way which is as customer-oriented as possible. As a result customer requirements can be taken up in early phases and their requirements dealt with in a targeted fashion. Digitalisation offers Hypo Vorarlberg new ways of focussing on its consulting strengths, instead of displacing them.

Risk management at Hypo Vorarlberg is subject to a continuous development process. To take account of the anticipated effects of the pandemic, the Bank has developed a new rating strategy and established additional internal reporting for prompt, continuous monitoring. Due to government support measures and deferrals, there were no broad-based rating downgrades or payment defaults in 2021. Once the effects of the war in Ukraine on the economy can be estimated, these are to be evaluated from Hypo Vorarlberg's perspective. In the event of an escalation, the company can make use of proven crisis management instruments. Such steps are not necessary at present.

EXPECTED EARNINGS DEVELOPMENT FOR HYPO VORARLBERG IN 2022

The COVID-19 pandemic can be expected to have a generally minor impact on the Hypo Vorarlberg Group's business development in the 2022 financial year. By contrast, the economic effects of the Ukraine war are difficult to estimate at present.

Hypo Vorarlberg is a very well positioned company, pursues a risk-conscious business model and has a strategic focus on the market areas in Austria, Switzerland, Germany and northern Italy. The Group itself has no significant direct exposure in Russia or Ukraine. There are neither sales markets nor investments in Russia, Ukraine or Belarus, nor are there any loans and advances to companies in these countries. As well as complying with the generally imposed sanctions, the bank has blocked the country limits for Russia and Ukraine. There are no customers in the Group who are significantly impacted by the effects of the war or by sanctions.

The full extent of the consequences of the Ukraine war cannot yet be estimated at present. However, there are already many indications that the war and the economic sanctions against Russia will also impact negatively on the economic recovery in the euro zone, particularly in Germany. In 2022 this will result in economic growth in the euro zone being lower, and it will also impact the price trend. Undoubtedly the most important effect for the future is the importance of Russia for energy prices. What is more, the consequences on the provision of energy within Europe of a potential discontinuation of the Nord-Stream-1 pipeline by Russia are hard to predict. Equally, at the present moment in time no reliable assumptions can be made on the impact of the war on the stock exchange and the development of fuel and raw material prices. As many European companies have economic ties with Russia and Ukraine, and the fact that the pandemic is not yet over, at present it is not clear how and to what extent the sanctions, delays in supply chains or price increases will impact the domestic economy.

At the same time, pressure is mounting on the ECB to tighten what is still a relaxed monetary policy. High inflation points to introducing the turnaround in interest rates, while acute concern about the economy points against taking such a step.

From today's perspective repercussions – at least indirect – on the business development of customers in the core market of Hypo Vorarlberg are to be expected, something which will impact the Group's result. For example, the supply chain problem, which has been intensified as a result of the war, strongly increasing energy prices or the impact of the finance markets will influence the economic development of customers. Decisive for the further development will be the length of the war. Pressure on earnings is anticipated at both Bank and Group level. Depending on the further development, Hypo Vorarlberg will adjust its expected losses as required. This can take place via changed ratings or changed assessments of the economic development.

In addition to a sound equity base, Hypo Vorarlberg also has sufficient liquidity reserves and a diversified funding structure, meaning that there are no significant cluster risks. There are no major maturities coming up in 2022. In the next two years, the repayment of the ECB's TLTRO is to be refinanced early. The planned issue volume is therefore higher than in the previous years. Thanks to the reserves it has recognised in the past years and its stable equity position, Hypo Vorarlberg can keep operating well even in the current difficult economic situation.

The Managing Board currently assumes that the company will continue to survive as a going concern based on the measures described above and the utilisation of facilitations and subsidies.

RISK MANAGEMENT
AT HYPO VORARLBERG

Hypo Vorarlberg addresses specific banking risks through conservative credit approval policies, strict valuation rules for loans and advances and appropriate recognition of valuation allowances. The subsidiaries generally use the same rating tools as the parent company. This guarantees a consistent rating procedure groupwide. Valuation allowances are recognised for credit risks in connection with loans and advances to customers and banks in accordance with uniform Group criteria.

The year under review was characterised by persistently low and even negative interest rates on the money and capital markets. Value at risk (99 %/10 days) reached monthly average levels of up to TEUR 23,813 (2020: TEUR 25,112).

The main market risks at the bank are interest rate risk and credit spread risk. Share price and foreign currency risks are of minor significance only. The bank does not have a significant trading book. Regarding the use of financial instruments in accordance with Section 243 (3) No. 5 UGB, please refer to the disclosures in the notes, section A (Accounting Policies), note (3).

Hypo Vorarlberg utilises the money market for refinancing only to a limited extent. The Bank participated in the ECB's medium-term refinancing operations.

Further explanations with regard to financial risks and risk management at Hypo Vorarlberg can be found in the notes. The full disclosure on the organisational structure, risk management and the riskcapital structure according to CRR are posted on the internet at www.hypovbg.at.

The uncertain economic consequences of the COVID-19 pandemic and of the Russia/Ukraine war that broke out in February 2022 also pose major challenges for risk management at Hypo Vorarlberg. For details, please refer to the information in the "Outlook for the 2022 financial year."

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM WITH REGARD TO THE ACCOUNTING PROCESS

At Hypo Vorarlberg, responsibility for establishing and designing the internal control and risk management system (ICS) lies with the entire Managing Board. Hypo Vorarlberg is distinguished by a clear organisational, corporate, control and monitoring function, which includes in particular the dual-control principle, IT-assisted controls, and decision-making powers and monitoring instruments geared towards inherent risk.

The existing internal control system is optimised on a continuousbasis. Further/new processes are included in the documented ICS in accordance with an assessment of materiality and the level of risk for Hypo Vorarlberg.

Control environment

The Finances unit at Hypo Vorarlberg, which also functions as Group Accounting, comprises Bookkeeping, Accounting, Reporting, Data and Document Management as well as Account Management. The close cooperation of the Finances unit with Controlling and Bank Risk Management enables uniform and aligned Bank reporting, both internally and externally. The report process, together with control measures, are regulated in work instructions, internal process descriptions, ICS documentation and in the Group Manual.

Risk assessment and control measures

As part of the ICS, processes are checked for inherent risk and the existence of traceable, effective and efficient risk-mitigation measures and controls, adjusted and if necessary supplemented on an ongoing basis at least once a year. Moreover, a continuous control and effectiveness analysis is performed, and any potential improvement found is implemented.

The financial reporting process is not limited to internal and external reporting, but also uses guidelines and methods to govern the collection of data, creation of entries, recognition of transactions and valuation of business and is supported by various software solutions (Arctis, Geos, SAP, B&S, PMS, etc.) in the preliminary stages. These programs offer automatic assistance and checks for correct entry and use. In addition, ongoing manual checks are made in daily business. The regularity, transparency, effectiveness and efficiency of these checks are ensured by ICS monitoring.

Information and communication

Bank reporting takes place almost exclusively on an automated basis using downstream systems and automatic interfaces and ensures current data for controlling, profit calculations and other assessments. As a result of the close cooperation between the Finances unit and Controlling and Bank Risk Management, target-actual comparisons are implemented on an ongoing basis. Reciprocal control and coordination between the departments is assured.

Bank decision-makers receive a large number of reports for their monitoring and control functions on a regular basis, e.g. weekly statements, monthly P&L forecasts with interest margin calculation, earnings extrapolations at branch, unit and Bank level, target-actual comparisons, volume and income, ALM, risk and Treasury reports, quarterly costing, various statistics and analyses.

On the basis of the above, periodic reports are issued to the Supervisory Board. At the end of the year, the Bank's annual financial statements are drawn up according to the Austrian Corporate Code (UGB)/Austrian Banking Act (BWG) and the Bank's consolidated financial statements are drawn up according to IFRS. There are also ongoing supervisory reporting obligations to the OeNB/FMA.

Twice a year, an ICS report is prepared for the Managing Board and once a year an ICS report for the Audit Committee with information on the work ICS is doing. ICS reporting has a bottom-up approach. The records on the implemented controls are completed by the person responsible for the process as they are being carried out on an operating basis. Together with the results of the control and effectiveness analysis, these records are combined in the ICS report. Together with the Internal Audit results they can be used to make a statement on the effectiveness of the ICS.

Monitoring

The quality of the ICS is continually assessed by Internal Audit regarding the reliability, regularity and legality of the accounting process and reporting. Internal Audit cooperates closely with the Managing Board members and managing directors of the subsidiaries and reports periodically to the Audit Committee of the Supervisory Board.

COMPLIANCE AND PREVENTION OF MONEY LAUNDERING

Hypo Vorarlberg's compliance department reports directly to the Managing Board and its task is to monitor compliance with statutory supervisory requirements, particularly those under the Austrian Banking Act (BWG), the Austrian Securities Supervision Act (WAG), the Austrian Stock Exchange Act (BoerseG) and the Federal Act on the Prevention of Money Laundering and Terrorist Financing in Financial Markets (FM-GwG).

Compliance

All employees are obliged to comply with the provisions of Hypo Vorarlberg's compliance guidelines. These guidelines are based on the Standard Compliance Code of the Austrian banking industry, WAG and BoerseG. Compliance with the regulations is ensured by way of regular, documented audits. New employees receive a comprehensive induction as part of the Hypo Basics which usually take place on the first two days of the first month of employment. All employees are trained on an ongoing basis, must take a brief test every year and are informed accordingly in the event of changes.

The compliance department regularly evaluates compliance with the provisions of MiFID II along with regulations which were also implemented in WAG and implements any necessary changes together with the specialist departments. These regulations protect investors and serve the efficiency and integrity of the market. Regular, documented checks are carried out here too.

Prevention of money laundering

Hypo Vorarlberg aims to prevent every form of money laundering and terrorist financing in connection with its business operations. To achieve this aim three computer programmes and additional audits are used to check for money laundering. These help employees when classifying customers with regard to the money laundering risk and flag suspicious payments. In addition, they ensure compliance with the legal requirements to carry out embargo checks and checks for politically exposed persons.

All employees complete a comprehensive training programme in which they are familiarised with the legal provisions regarding the prevention of money laundering and terrorist financing and reasons to suspect them. In addition, all new employees receive training in the basic induction. All employees who have contact with customers must pass a refresher test every year. In further training, employees are taught about specific provisions and types of money laundering so that suspicious transactions can be recognised. Regular checks are performed at the branch offices, including by internal audit.

Legal proceedings due to FMA investigation

Following the publication of the "Panama Papers" in early April 2016, the Austrian Financial Market Authority (FMA) examined Hypo Vorarlberg's offshore business as part of a special investigation. On 21 March 2018, the FMA published a penal order against Hypo Vorarlberg in relation to this matter. The Austrian Federal Administrative Court (BVwG) upheld the FMA's penal order and Hypo Vorarlberg paid the fine but also filed an extraordinary appeal with the Austrian Administrative High Court (VwGH). The Austrian Administrative High Court subsequently repealed the order. In the second judicial procedure, the BVwG repealed the penal order without substitution, and the FMA filed an extraordinary appeal with the VwGH. The Managing Board and the legal representatives of the Bank remain of the opinion that all the bank's transactions complied with the legal situation prevailing in the years in question. The case was closed with legal effect in the autumn of 2021.

DATA PROCESSING/IT

Along with other Austrian banks, Hypo Vorarlberg has outsourced large parts of its IT systems to ARZ (Allgemeines Rechenzentrum GmbH) in Innsbruck. As a competence centre for IT services in the banking industry, ARZ supports key business processes of the affiliated banks, most of which are also owners with various different shares. The banks' joint strategy is to bundle key IT expertise to generate economies of scale and synergies and harness potential efficiencies through technology. This enables Hypo Vorarlberg, as well as the other participating banks, to reduce the complexity of its own IT infrastructure while also concentrating on its core business.

ARZ's central system for day-to-day banking business is its internally developed ARCTIS software solution, supplemented by standard solutions such as GEOS, SAP, B+S and others. ARZ is responsible for operating the core banking systems and IT infrastructure. New requirements for central IT systems are implemented by ARZ together with the banks.

In 2020, Hypo Vorarlberg's IT and digitalisation expertise was bundled in a newly formed IT division. This merger takes account of the growing strategic importance of IT for banking business. Pooling expertise in this way not only increases operating efficiency, but also Hypo Vorarlberg IT is expected to provide significant impetus for the Bank's digital transformation in the future. With over 60 highly qualified employees, Hypo Vorarlberg IT has the necessary resources to respond to the challenges of digitalisation, identify risks and take advantage of opportunities.

In 2021 a new IT strategy was adopted. The core of this strategy is the understanding that in the age of digitalisation, the IT plays a central role as a business enabler, especially in the finance area. This is also the case at Hypo Vorarlberg. This transformation from internal service provider to an equal business partner goes hand in hand with establishing an agile stance as well as introducing correspondingly agile tools. The starting signal for this transformation process was the re-organisation of IT in the Bank in the middle of 2021. In the process, the IT organisation was positioned as delivery and operations unit, thus focussing on the decisive performance elements of a strong IT. That it was possible to establish a new IT strategy, while at the same time coping with the COVID-19 pandemic in the 2021 financial year, made strong demands on both the entire organisation in the IT, is a demonstration of the performance of Hypo Vorarlberg as a whole and the Hypo Vorarlberg IT in particular.

Also part of the IT strategy is the vigorous further development of the IT systems – both the internal Bank systems and the systems in the ARZ on the basis of participation in the relevant ARZ Governance committees. A primary objective here is the modernisation of the IT architecture with the aim of opening up the core banking system via defined interfaces to become faster and more flexible for new solutions, particularly with regard to digitalisation. For its own IT solutions, in its IT strategy Hypo Vorarlberg has formulated a more intensified use of the cloud. Over the next year, the aim is to sound out what the strict regulatory conditions allow and which applications are suitable for cloud operation.

Examples of the numerous change-the-bank projects of 2021, most of which in cooperation with the ARZ:

- Planning to modernise systems for bank management in an "Integrated Finance and Risk Architecture" program scheduled over several years, starting with planning the transition from SAP R/3 to SAP R/4HANA.

- Modernisation of the digitalisation architecture with the establishment of the digital backbone including transitioning applications to an operating structure based on modern cloud-technology.

- Regulatory projects continue to make up a considerable share of the change-the-bank portfolio. Examples include BASEL IV, the EU Action Plan on Sustainable Finance and TARGET2-Securities.

- In addition, on an ongoing basis Hypo Vorarlberg is investing in the digital channel, in particular the steady development of online banking, supplemented by complementary functions such as the digital signature and video consulting.

ARZ's systems and processes are regularly subject to audits by both internal audit and an external auditing company. These audits and control measures are carried out based on "ISAE 3402 – Type 2" and "IWP/PE 14 Type 2" (Institute of Austrian Auditors (IWP) standard for auditing outsourced functions) and are adapted in line with changing conditions on an ongoing basis. The audits did not give rise to any significant objections. ARZ and the banks counter IT risks through backup systems, failover options, suitable security concepts and in-depth information for employees. Clear rules on responsibilities and access, the requirement of the dual-control principle and an internal monitoring system are in place. Hypo Vorarlberg also focuses on consistent use of standardisation, increasing cost efficiency and maintaining innovative capability.

IT operations at the St. Gallen branch are provided by a Swiss standard software solution comparable with the processes at ARZ. This is also audited by an external party and did not give rise to any objections. Standard software systems are also used at the subsidiary Hypo Immobilien & Leasing and the leasing company in Bolzano.

DISCLOSURE OF INFORMATION
ON REMUNERATION POLICY AND PRACTICES IN 2021

The remuneration policy of Hypo Vorarlberg Bank AG is consistent with its strategy, goals and values and its long-term interests. It corresponds to the size, internal organisation, type, scope and complexity of its business. Special remuneration regulations in accordance with the annex to section 39b BWG apply to risk takers (identified staff).

The remuneration policy is compatible with robust and effective risk management. In 2021, a total of three meetings of the Remuneration Committee of Hypo Vorarlberg were held. In addition to the Supervisory Board – specifically the Remuneration Committee headed by Birgit Sonnbichler – the internal audit department also acts as a controlling body for the bank's remuneration policy. On behalf of the Supervisory Board, this department is charged with auditing the implementation of the principles of the remuneration policy.

Employees at Hypo Vorarlberg are generally remunerated in line with the market with collectively agreed fixed salaries and any overpayment if necessary. In rare cases, bonus agreements may be concluded with managers and highly qualified employees. Any variable remuneration is only paid out via the salary. For the payment of the variable component, certain criteria aligned to long-term success, which are individually defined in the employment contract in advance, must be met. The ratio of fixed to variable remuneration does not encourage employees to enter into risks of any kind, including sustainability risks. Variable remuneration components, particularly for risk takers, are capped in accordance with the Austrian Banking Act.

Remuneration policy for Managing Board members

Chairman of the Managing Board Michel Haller and Managing Board members Wilfried Amann and Philipp Hämmerle received a fixed basic annual salary for 2021 which was paid out in 14 instalments. There are no bonus agreements in addition to the remuneration payments agreed in the Managing Board contracts.

A full disclosure on the remuneration policy pursuant to CRR Article 450 of Regulation (EU) No. 575/2013 on remuneration policy and practice can be found online at www.hypovbg.at.

MINDFUL BUSINESS –

SUSTAINABILITY AT HYPO VORARLBERG

Business, politics and society have been contending with the coronavirus crisis for more than two years now and continually face new questions in this context. In addition to the pandemic, the big issues of digitalization and sustainability have gathered significant momentum and have also driven changes. Developments that had already begun before the pandemic also gained fresh impetus – not least because the EU funds for combating the pandemic are tied to countries' willingness to set out on the path towards a sustainable, resource-efficient economy. At the same time, regulatory initiatives from the past few years are progressing – particularly measures in connection with the EU action plan for financing sustainable growth.

In view of these developments, sustainability is perceived not just as a temporary fad but increasingly as a strategic challenge that is crucial to the future viability and resilience of a company's business model. Hypo Vorarlberg therefore continuously keeps developing its products and services. This is reflected in the fact that as of November 2021 all funds and asset management strategies actively offered by the bank could be raised to the first level of sustainable financial products, thus meeting the requirements of Article 8 of the EU Disclosure Regulation.

For the Managing Board, the level of financial success and the manner in which the business is run are equally important. The top priority is long-term and organic growth to secure Hypo Vorarlberg's continuing profitability rather than short-term profits. To achieve these objectives, the corporate strategy and policy, target planning and remuneration system are harmonised. Sustainability is also paramount in customer business: instead of speculation and profit maximisation the greatest attention is paid to security and conserving the value of customer funds.

Sustainability programme
Hypo Vorarlberg launched a sustainability programme for the structured planning and implementation of its sustainability targets at the beginning of 2016. Since February 2022, Group Sustainability has been assigned directly to the Managing Board in order to emphasise the strategic importance of this area for the bank.

The company has been reporting on its sustainability activities since 2011 and has done so in the form of a separate sustainability report since 2016. Since the 2017 financial year, the Austrian Act for the Improvement of Sustainability and Diversity (NaDiVeG), which incorporates EU Directive 2014/95/EU in Austrian law, has required large public-interest entities to publish non-financial information relating to environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters. The respective concepts and their results, the due diligence processes used, the main risks and the key performance indicators must be disclosed in this context.

The non-financial statement may be published as part of the management report or in the form of a separate report. Hypo Vorarlberg has opted to prepare a separate consolidated non-financial report. In conformity with the law, this report addresses environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters.

With the 2021 sustainability report prepared in accordance with the Global Reporting Initiative (GRI) standards ("Core" option), Hypo Vorarlberg meets the statutory requirements and provides a comprehensive overview of key sustainability issues and performance figures in the Group and at the parent company (the Bank). In the 2021 financial year, banks were required for the first time to report their share of environmentally sustainable assets in relation to their total assets pursuant to Article 8 of Regulation (EU) 2020/852. In accordance with the legal requirements, this disclosure is also made in the separate sustainability report, which is published on the website www.hypovbg.at.

Research and development
With no independent planned investigation having been conducted to obtain new scientific or technical knowledge, and no upstream development work for commercial production or use having been carried out, Hypo Vorarlberg does not perform any research and development activities. However, it reviews the effects of economic and market developments on the development of its net assets, financial position and results of operations on an ongoing basis. To survive among the competition, it is not enough just to know the current market conditions; it is also necessary to consider future scenarios. For years, there has been a close partnership with Vorarlberg University of Applied Sciences for the purposes of research. The cooperation covers issues such as optimising calculation of the covered pool assets, optimum allocation of securities collateral and calculation of stress scenarios and restructuring measures in accordance with the Austrian Federal Act on the Restructuring and Resolution of Banks (BaSAG).

Hypo Vorarlberg is also represented in international networks and, for example, maintains a cooperation with the Business Engineering Institute St. Gallen, a leading institute in the German-speaking region that transfers knowledge gained from research and science into innovative solutions.

Before the detailed development of a new product or the inclusion of a third-party product in Hypo Vorarlberg's product range, a product and business introduction process is defined to guarantee an orderly approach and identify potential risks in advance.

Bregenz, 31 March 2022

Hypo Vorarlberg Bank AG
The members of the Managing Board

Michel Haller
Chairman of the Managing Board

Wilfried Amann
Member of the Managing Board

Philipp Hämmerle
Member of the Managing Board

CONSOLIDATED FINANCIAL STATMENTS (IFRS)

CONSOLIDATED FINANCIAL STATEMENTS

IN ACCORDANCE WITH IFRS DATED 31. DECEMBER 2021

I. STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2021

Income statement

TEUR	Notes	2021	2020	Change in TEUR	Change in %
Interest and similar income according to the effective interest method		228,601	209,594	19,007	9.1
Other interest and similar income		62,800	60,986	1,814	3.0
Interest and similar expenses according to the effective interest method		-58,621	-61,453	2,832	-4.6
Other interest and similar expenses		-36,719	-34,967	-1,752	5.0
Net interest income	(6)	196,061	174,160	21,901	12.6
Dividend income	(7)	794	688	106	15.4
Fee and commission income		47,135	41,742	5,393	12.9
Fee and commission expenses		-9,112	-7,095	-2,017	28.4
Net fee and commission income	(8)	38,023	34,647	3,376	9.7
Net result from financial instruments at amortized cost	(9)	443	1,518	-1,075	-70.8
Net result from financial instruments at fair value	(10)	-5,867	-8,234	2,367	-28.7
Other income	(11)	28,142	17,057	11,085	65.0
Other expenses	(12)	-42,018	-23,912	-18,106	75.7
Administrative expenses	(13)	-98,746	-95,112	-3,634	3.8
Depreciation and amortization	(14)	-8,128	-8,185	57	-0.7
Loan loss provisions and impairment of financial assets	(15)	-15,296	-41,443	26,147	-63.1
Impairment of non-financial assets	(16)	-259	-2,808	2,549	-90.8
Result from equity consolidation		529	449	80	17.8
Earnings before taxes		93,678	48,825	44,853	91.9
Taxes on income	(17)	-26,868	-11,494	-15,374	>100.0
Annual net income		66,810	37,331	29,479	79.0
of which attributable to owners of the parent company		66,798	37,174	29,624	79.7
of which attributable to non-controlling interests		12	157	-145	-92.4

Statement of comprehensive income

TEUR	2021	2020	Change in TEUR	Change in %
Annual net income	66,810	37,331	29,479	79.0
Other income (OCI)	-827	-2,360	1,533	-65.0
OCI w/o recycling	-831	-2,343	1,512	-64.5
Actuarial result IAS 19	1,634	-1,769	3,403	-
Measurement of own credit risks for liabilities at fair value	-2,742	-1,357	-1,385	>100.0
Income tax effects	277	783	-506	-64.6
OCI with recyling	4	-17	21	-
Foreign currency translation	4	-17	21	-
Group statement of comprehensive income	65,983	34,971	31,012	88.7
of which attributable to owners of the parent company	65,971	34,814	31,157	89.5
of which attributable to non-controlling interests	12	157	-145	-92.4

II. BALANCE SHEET
DATED 31 DECEMBER 2021

Assets

TEUR	Notes	31.12.2021	31.12.2020	Change in TEUR	Change in %
Cash and balances with central banks	(18)	1,806,556	1,338,622	467,934	35.0
Trading assets	(19)	86,610	122,536	-35,926	-29.3
Financial assets at fair value (non-SPPI)	(20)	702,251	750,899	-48,648	-6.5
of which equity instruments		12,729	23,897	-11,168	-46.7
of which debt securities		191,234	167,350	23,884	14.3
of which loans and advances to customers		498,288	559,652	-61,364	-11.0
Financial assets at fair value (option)	(21)	301,578	333,857	-32,279	-9.7
of which debt securities		59,972	59,554	418	0.7
of which loans and advances to customers		241,606	274,303	-32,697	-11.9
Financial assets at amortized cost	(23)	12,390,301	12,332,201	58,100	0.5
of which debt securities		2,436,566	2,598,679	-162,113	-6.2
of which loans and advances to banks		314,964	227,250	87,714	38.6
of which loans and advances to customers		9,638,771	9,506,272	132,499	1.4
Positive market values of hedges	(24)	119,578	191,377	-71,799	-37.5
Affiliates		968	968	0	0.0
Shares in companies valued at equity	(25)	3,522	3,325	197	5.9
Property, plant and equipment	(26)	79,372	82,305	-2,933	-3.6
Investment property	(27)	46,809	52,129	-5,320	-10.2
Intangible assets	(28)	1,198	1,843	-645	-35.0
Income tax assets		15,188	15,432	-244	-1.6
Deferred income tax assets	(29)	14,650	15,319	-669	-4.4
Other assets	(31)	57,532	55,955	1,577	2.8
Total assets		**15,626,113**	**15,296,768**	**329,345**	**2.2**

Liabilities and shareholders' equity

TEUR	Notes	31.12.2021	31.12.2020	Change in TEUR	Change in %
Trading liabilities	(33)	105,699	117,353	-11,654	-9.9
Financial liabilities at fair value (option)	(34)	671,743	803,599	-131,856	-16.4
of which securitised liabilities		536,752	663,319	-126,567	-19.1
of which liabilities to banks		0	2,050	-2,050	-
of which liabilities to customers		134,991	138,230	-3,239	-2.3
Financial liabilities at amortized cost	(35)	13,298,923	12,874,124	424,799	3.3
of which securitised liabilities		4,985,203	4,523,179	462,024	10.2
of which liabilities to banks		3,030,584	2,842,204	188,380	6.6
of which liabilities to customers		5,283,136	5,508,741	-225,605	-4.1
Negative market values of hedges	(36)	137,205	163,875	-26,670	-16.3
Provisions	(37)	72,161	60,814	11,347	18.7
Income tax liabilities	(38)	5,034	1,102	3,932	>100.0
Deferred income tax liabilities	(39)	2,543	2,427	116	4.8
Other liabilities	(40)	42,415	40,242	2,173	5.4
Shareholders' equity	(41)	1,290,390	1,233,232	57,158	4.6
of which attributable to owners of the parent company		1,290,333	1,230,670	59,663	4.8
of which attributable to non-controlling interests		57	2,562	-2,505	-97.8
Total liabilities and shareholders' equity		**15,626,113**	**15,296,768**	**329,345**	**2.2**

III. STATEMENT OF CHANGES
IN SHAREHOLDERS' EQUITY

Statement of changes in shareholders' equity

TEUR	Subscribed capital	Capital reserve	Retained earnings and other reserves	Accumulated other income	Total parent company shareholders Total parent company	Non-controlling interest Non-	Total Shareholders' equity
Balance 01/01/2020	162,152	44,674	994,516	-5,485	1,195,857	2,414	1,198,271
Consolidated net income	0	0	37,174	0	37,174	157	37,331
Other income	0	0	0	-2,360	-2,360	0	-2,360
Comprehensive income 31/12/2020	0	0	37,174	-2,360	34,814	157	34,971
Reclassifications	0	0	3	-4	-1	1	0
Dividends	0	0	0	0	0	-10	-10
Balance 31/12/2020	162,152	44,674	1,031,693	-7,849	1,230,670	2,562	1,233,232
Balance 01/01/2021	162,152	44,674	1,031,693	-7,849	1,230,670	2,562	1,233,232
Consolidated net income	0	0	66,798	0	66,798	12	66,810
Other income	0	0	0	-827	-827	0	-827
Comprehensive income 31/12/2021	0	0	66,798	-827	65,971	12	65,983
Disposal from consolidation	0	0	-17	17	0	0	0
Reclassifications	0	0	27	0	27	-2,505	-2,478
Dividends	0	0	-6,335	0	-6,335	-12	-6,347
Balance 31/12/2021	162,152	44,674	1,092,166	-8,659	1,290,333	57	1,290,390

Further details on equity and the composition of capital components – in particular accumulated other comprehensive income – are given in note (41).

IV. CASH FLOW STATEMENT

Cash flows from operating activities

TEUR	2021	2020
Consolidated net income	66,810	37,331
Non-cash items included in consolidated net income		
Impairments/reversals on property, plant and equipment	7,587	8,912
Impairments/reversals on financial instruments	1,753	17,834
Allocations/reversals to/from reserves and loan loss provisions	15,454	42,990
Change in other non-cash items	60,346	-27,563
Other adjustments (interest and income taxes)	-163,247	-153,510
Change in assets from operating activities		
Trading assets	0	27
Loans and advances at fair value (non-SPPI)	42,105	12,949
Loans and advances at fair value (option)	15,634	-15,231
Loans and advances at amortized cost	-180,216	-443,078
Non-current assets available for sale	0	4,635
Sonstige Vermögenswerte	-1,330	23,350
Change in liabilities from operating activities		
Non-subordinated liabilities at fair value (option)	-99,094	-102,723
Non-subordinated liabilities at amortized cost	425,422	1,410,541
Provisions	-2,580	-1,917
Income tax liabilities	7,734	-967
Other liabilities	2,266	-15,312
Interest received	244,049	232,504
Interest paid	-63,109	-76,763
Income tax paid	-26,283	-25,168
Cash flows from operating activities	353,301	928,841

Cash flows from investing activities

TEUR	2021	2020
Cash inflow from the sale/repayment of		
Financial instruments	504,399	719,581
Property, plant and equipment and intangible assets	3,922	3,518
Subsidiaries	17	0
Cash outflows for investments in		
Financial instruments	-393,522	-765,820
Property, plant and equipment and intangible assets	-2,858	-4,018
Interest received	28,117	29,509
Dividends and profit distributions received	794	688
Cash flows from investing activities	140,869	-16,542

Cash flows from financing activities

TEUR	2021	2020
Cash changes subordinated and tier 2 capital	431	-8,951
Lease payments from operating leases	-1,400	-1,311
Dividends	-6,347	-10
Interest paid	-13,388	-13,620
Cashflow from financing activities	-20,704	-23,892

Reconciliation to cash and balances with central banks

TEUR	2021	2020
Cash and balances with central banks as at 1 January	1,338,622	442,546
Cash flows from operating activities	353,301	928,841
Cash flows from investing activities	140,869	-16,542
Cash flows from financing activities	-20,704	-23,892
Effects of changes in exchange rate	-5,532	7,672
Effects of changes in scope of consolidation	0	-3
Cash and balances with central banks as at 31 December	1,806,556	1,338,622

Further disclosures on the cash flow statement are shown under note (44).

V. NOTES

A. ACCOUTING POLICIES

(1) GENERAL INFORMATION

Hypo Vorarlberg Bank AG and its subsidiaries offer customers a broad spectrum of financial services. The core businesses are the Corporate and Private Customer segments and Private Banking. A range of leasing, insurance and real estate services are additionally offered. The Group's core market is Vorarlberg, as well as Eastern Switzerland, Southern Germany and South Tyrol. The Bank has offices in Vienna, Graz and Wels in Eastern Austria and in Salzburg in Central Austria.

The Bank is a stock corporation with its registered office in Bregenz, Austria, and is registered in Feldkirch, Austria, in the commercial register (FN145586y). The Bank is the ultimate parent company of the companies included in the consolidated financial statements. The shareholders of the Bank are presented under note (51). The Bank's address is Hypo-Passage 1, 6900 Bregenz.

The consolidated financial statements for the 2021 financial year and the comparative figures for 2020 were prepared in accord-ance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the international accounting standards adopted by the EU on the basis of IAS Regulation (EC) No 1606/2002 including the applicable interpretations by the International Financial Reporting Interpretations Committee (IFRIC/SIC) and therefore fulfil the requirements of Section 59a of the Austrian Banking Act and Section 245a of the Austrian Commercial Code.

On 31 March 2022, the Managing Board of Hypo Vorarlberg Bank AG authorised release of these annual financial statements.

All amounts are stated in thousand Euro (TEUR) unless specified otherwise. The tables below may contain rounding differences.

(2) PRINCIPLES AND SCOPE OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of Hypo Vorarlberg Bank AG and its subsidiaries as of 31 December 2021. Subsidiaries are fully consolidated from the acquisition date, i.e. from the date on which the Group obtains control. Consolidation ends as soon as the parent company ceases to control the subsidiary. The financial statements of the subsidiaries are prepared using the same accounting policies and reporting period as the financial statements of the parent company. On consolidation, intragroup expenses, income, receivables and liabilities are eliminated. Currency-related differences from debt consolidation and the elimination of income and expenses are recognised through profit and loss in the net trading result. The results of intragroup transactions are eliminated unless they are immaterial. The deferred taxes required by IAS 12 are recognised on temporary differences from consolidation. The amount of non-controlling interest is determined according to the interests of minority shareholders in the equity of the subsidiaries.

Business combinations are accounted for using the acquisition method. The costs of a business acquisition are measured at the sum of the consideration transferred measured at fair value as of the acquisition date and the non-controlling interest in the acquiree. For each business combination, the Group decides whether to measure the non-controlling interest in the acquire either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Costs incurred in connection with the business combination are recognised as an expense under administrative expenses.

When the Group acquires an entity, it assesses the appropriate classification and designation of the financial assets and liabilities assumed according to the terms of the contract, economic circumstances and the prevailing conditions on the acquisition date.

In addition to the parent company, the consolidated financial statements include 30 subsidiaries (2020: 34), in which Hypo Vorarlberg Bank AG directly or indirectly holds more than 50 % of the voting rights or otherwise exerts a controlling influence. Of these entities, 27 are headquartered in Austria (2020: 29) and five in other countries (2020: five).

In the 2021 financial year, Hypo Vorarlberg's share in HYPO EQUI-TY Unternehmensbeteiligungen AG increased from 79.19 % to 100.00 %. Because of this transaction, the shares in Metis Beteiligungs und Verwaltungs GmbH, ECOS Venture Capital Beteiligungs AG and PAXO-Beteiligungs- und Verwaltungs GmbH also increa-sed. Hypo Vorarlberg is thus the sole owner of these companies. The acquisition of the remaining shares did not change the meth-od of consolidation for HYPO EQUITY Unternehmensbeteiligungen AG, as it was already fully consolidated due to the controlling interest.

As of 6 December 2021, ECOS Venture Capital Beteiligungs AG and PAXO-Beteiligungs- und Verwaltungs GmbH, which were both wholly owned by the Group as of this date, were merged with the shareholder Hypo Equity Unternehmensbeteiligungen AG within the Group and deleted from the commercial register. These mer-gers do not have any impact on these consolidated financial statements.

In addition, the two holdings INPROX Praha Michle – HIL s.r.o. and INPROX Praha Letnany – HIL s.r.o. were liquidated and deleted from the commercial register during the year. These deletions do not have any impact on these consolidated financial statements.

The Group's shares in associated companies are accounted for using the equity method. Associated companies are companies that are not controlled by Hypo Vorarlberg Bank AG, but in which a shareholding of at least 20 % and thus a significant influence exists.

VKL III Gebäudeleasing-Gesellschaft m.b.H. was deleted from the commercial register as of 18 May 2021. This deletion does not have any impact on these consolidated financial statements, as the liquidation occurred in 2020.

Three (2020: four) material Austrian associates are accounted for using the equity method.

According to the equity method, shares in an associate are recognised in the balance sheet at cost plus changes in the Group's share in the net assets of the associate arising after the acquisition. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor subjected to a separate impairment test.

The income statement includes the Group's share in the associate's net profit or loss for the period. Changes recognised directly in the associate's equity are reported by the Group in the amount of its share and if necessary in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated in line with the interest in the associate.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss for its shares in an associate. At each reporting date, the Group determines whether there are objective indications that the share in an associate may be impaired. If this is the case, the difference between the recoverable amount of the share in the associate and the carrying amount of the share in the associate's profit or loss is recognised through profit or loss as an impairment loss.

On the loss of significant influence, the Group measures any investment it retains in the former associate at fair value. Differences between the carrying amount of the share in the associate when significant influence is lost, the fair value of any retained interest and the disposal proceeds are recognised in the income statement.

Based on the data in these financial statements, the (aggregated) total assets of the associated investment(s) not measured at equity amounted to TEUR 683 in the past financial year (2020: TEUR 639). The aggregated equity of the investment(s) amounted to TEUR 37 (2020: TEUR 37). No earnings after taxes were generated. If these investments were included in the consolidated financial statements using the equity method and based on balance sheet data as of 31 December 2021, the measurement effect on the items "Shares in companies valued at equity" and "Equity" would be TEUR -12 (2020: TEUR -12). Likewise, inclusion in the income statement would have no effect in the "Result from equity consolidation" item. One company (2020: one company) was not included in the consolidated financial statements due to reasons of immateriality and because data and information relating to the limited effects on the increased informational value were not available in due time.

The reporting date of the consolidated financial statements is the same as the reporting date of the fully consolidated companies in the consolidated financial statements with the exception of HYPO EQUITY Unternehmensbeteiligungen AG and other Group subsidiaries (see Part VII), which have a different reporting date of 30 September 2021 and prepare interim financial statements dated 31 December 2021.

A full presentation of the subsidiaries and associates included in the consolidated financial statements can be found in Part VII. of the consolidated financial statements.

(3) ACCOUNTING POLICIES

The significant accounting policies applied for the preparation of these consolidated financial statements are outlined below. Unless stated otherwise, the consolidated companies applied the policies described uniformly by and consistently to the reporting periods presented. Items were recognised and measured on a going concern basis. The consolidated financial statements were prepared in accordance with the historical cost principle. Except for those financial instruments that must be measured at fair value. Financial instruments in an effective hedging relationship (fair value hedge) and measured at amortized cost were adjusted for effective hedge changes. Income and expenses are recognised pro rata temporis in the period to which they relate.

The consolidated financial statements comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in shareholders' equity, the cash flow statement and the notes. Segment reporting is included in the notes in section E.

a) Currency translation

Assets and liabilities are measured in the currencies of the companies included in the consolidated financial statements that match their economic environments (functional currency).

These consolidated financial statements are published in EURO, which is both the functional and the reporting currency of the Group. Monetary assets and liabilities not denominated in Euro are translated into Euro at the closing rate on the reporting date.

Gains and losses from the settlement of transactions in foreign currencies are recognised in the income statement under net result from financial instruments at fair value. The translation differences from financial assets allocated to the category at fair value (non-SPPI) and fair value (option) are recognised through profit or loss in the income statement as gains or losses from changes under net result from other financial instruments at fair value. If a company in the Group uses a functional currency that differs from the reporting currency, the assets and liabilities are translated at the mean rate of exchange on the reporting date and the income statement at the average rate for the year. Equity is translated at historical exchange rates. Resulting translation gains and losses on capital consolidation are recognised in other comprehensive income and reported separately within shareholders' equity.

ECB exchange rates on the reporting date (amount in the currency for 1 Euro)

FX rates	31.12.2021	31.12.2020
CHF	1.0331	1.0802
JPY	130.3800	126.4900
USD	1.1326	1.2271
PLN	4.5969	4.5597
CZK	24.8580	26.2420
GBP	0.8403	0.8990

b) Cash

The item "Cash and balances with central banks" on the balance sheet comprises cash in hand and balances payable on demand with central banks and banks. For the purposes of the cash flow statement, cash and cash equivalents comprise the cash defined above. Cash and balances with central banks were measured at nominal value less any value adjustments.

c) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. According to IFRS 9, derivatives are also financial instruments. A financial instrument is recognised on the balance sheet when it is probable that the future economic benefits will flow to the entity and when its cost or another market value can be measured reliably. A liability is recognised on the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably. Financial instruments are recognised for the first time when the Group becomes a party to the contract for the financial instrument. Regular way purchases or sales of a financial asset are recognised at the settlement date, i.e. the date on which the asset is delivered.

Initial recognition and subsequent measurement

On initial recognition, financial instruments are measured at transaction price i.e. at fair value (= amortized cost) irrespective of the measurement category. Financial instruments are subsequently accounted for on the basis of the principles of categorisation and measurement stipulated by IFRS 9. With regard to the classification and valuation of financial instruments, IFRS 9 distinguishes between debt instruments, equity instruments and derivatives. On initial recognition, a financial instrument is categorised to a measurement category that determines subsequent measurement in the future. The table below shows the classifications of financial instruments.

Classifications of financial instruments	Abbreviation
Trading assets	HA
Financial assets at fair value (non-SPPI)	NON-SPPI
Financial assets at fair value (option)	FVO
Financial assets at fair value (OCI)	OCI
Financial assets at amortized cost	AC
Trading liabilities	HP
Financial liabilities at fair value (option)	LFVO
Financial liabilities at amortized cost	LAC

For allocation to the respective category, an allocation to the business models must be made for financial assets in advance depending on the intended business activity with this financial instrument. Determining and assessing the business model is based on portfolios. The portfolios cannot be freely allocated, but must be based on the management of the business activity. In addition, the allocation to the respective category depends on the cash flow criteria being met.

Hypo Vorarlberg's business models

- "Hold" business (hold to collect)
  The business model aims to hold the debt instrument to the end of its term, thereby generating contractual cash flows (i.e. interest income) and collecting the nominal value on maturity. However, it is possible to make sales from this business model to a certain extent. Thus, immaterial sales can generally be made in this business model, but also occasionally material transactions, but they are uncommon and occur rarely. Compliance with this regulation will be reviewed at regular ALM board meetings.
- "Trading book" business model
  The business model aims to generate cash flows by selling debt instruments. The acquisition takes place with the intention of generating short-term gains. The Bank maintains only a small trading book according to CRR for servicing the customer securities business. All debt securities that cannot be clearly assigned to one of the other business models must also be assigned to this business model.
- "Hold for sale" business model
  Debt instruments are held under a business model whose objective is to collect the contractual cash flows or sell the debt instruments. The Group does not use this business model.

Cash flow criteria of financial assets

In addition to the allocation of debt instruments to the business models, the contractual cash flow conditions also apply to the categorisation of financial instruments. If a contract of a financial instrument does not exclusively provide for the payment of interest and principal that is closely related to the underlying financial instrument, the payment criterion (SPPI - solely payment of principal and interest) will not be met and must subsequently be measured at fair value in accordance with IFRS 9.

The individual categories and their composition are outlined below.

Trading assets

This category recognises financial assets that have been allocated to the "trading book" business model. Derivative financial instruments of the banking book are also recognised in this category if they have a positive market value. The derivatives were mainly concluded to hedge market price risks of financial instruments of the banking book. Although there is therefore primarily no intention to trade, these derivatives must be recognised in this category in accordance with IFRS. Derivative financial instruments in the trading assets are recognised as of the trade date. Other financial instruments are carried as of the settlement date. Transaction costs are immediately recognised through profit or loss under commission expenses in the income statement. They are measured at fair value through profit or loss. Gains/losses on remeasurement and realised gains/losses are recognised in the net result from financial instruments at fair value. If there are published price quotations on an active market, these are used as fair value. Otherwise, fair value is determined using recognised measurement methods. Interest income and interest expenses from trading assets and derivatives are recognised in net interest income.

Financial assets – at fair value (non-SPPI)

Those financial instruments that have been allocated to the "hold" Business model but which do not meet the IFRS 9 cash flow criteria (non-SPPI – Non-solely payment of principal and interest) are allocated to this category. These are generally debt instruments whose interest rate conditions include a lever or financing arrangements in which the Group significantly contributes to the project risk. Owing to the nature of equity instruments, the cash flow criteria cannot generally be met by them. Thus, those equity instruments are included in this category that have not been allocated to the "trading book" business model and that are not measured voluntarily through "other comprehensive income". They are measured at fair value through profit or loss. Transaction costs are immediately recognised through profit or loss under commission expenses in the income statement. Changes in fair value are recognised through profit or loss in the net result from financial instruments at fair value. Impairment losses for the at fair value category (non-SPPI) are included implicitly in the fair value of the financial instrument and are therefore not shown separately.

Financial assets – at fair value (option)

This category includes those debt securities that have been allocated to the "hold" business model and that also meet the cash flow criteria, but which have been voluntarily designated at fair value. This option referred to as a fair value option may only be used if it eliminates or significantly reduces inconsistencies in the measurement. In our case, these are financial assets whose interest rate and currency risks have been hedged with an interest rate swap, currency swap or cross-currency swap and hedge accounting is not used for this economic hedge. They are measured at fair value through profit or loss. Transaction costs are immediately recognised through profit or loss under commission expenses in the income statement. Changes in fair value are recognised through profit or loss in the net result from financial instruments at fair value. Impairment losses for the at fair value category (non-SPPI) are included implicitly in the fair value of the financial instrument and are therefore not shown separately.

Financial assets at fair value (OCI)
This category includes assets measured at fair value through other comprehensive income. Debt securities of the "hold for sale" business model are allocated to this category. Equity instruments can be voluntarily allocated to this category. By utilising this irrevocable option, the subsequent measurement is directly carried out in profit or loss through "other comprehensive income". Dividends are recognised through profit or loss in dividend income. Even if the equity instrument is disposed of, gains/losses on remeasurement recognised in "other comprehensive income" remain. Impairment is recognised through profit or loss in the income statement. Reversals of impairment on debt securities are recognized in the income statement. If the financial asset is sold, the gains/ losses on remeasurement accumulated in other comprehensive income are reversed and transferred to the net result from financial instruments at amortized cost. In the consolidated financial statements for 2021 and in the previous year, no financial assets are allocated to this category.

Financial assets at amortized cost
This category includes those debt securities that have been allocated to the "hold" business model and meet the cash flow criteria. The objective of these financial instruments is to collect contractual cash flows. They are measured at amortized cost. This is the amount resulting from historical cost including premiums, discounts and incidental acquisition costs. The differences between historical cost and repayment amounts are deferred, amortized according to the effective interest method and recognised through profit or loss in net interest income. Accrued interest on receivables and liabilities as well as premiums and discounts are shown with the respective receivables and liabilities under the relevant balance sheet line item. This category also includes trade receivables. The amount of these receivables is immaterial in absolute terms. They also do not include any financing elements, so these receivables are recognised at their nominal value.

Trading liabilities
Financial liabilities held for trading purposes are assigned to this category. Derivative financial instruments of the banking book are also recognised in this category if they have a negative market value. The derivatives were mainly concluded to hedge market price risks of financial instruments of the banking book. Although there is therefore primarily no intention to trade, these derivatives must be recognised in this category in accordance with IFRS. Derivative financial instruments in the trading assets are recognised as of the trade date. Other financial instruments are carried as of the settlement date. Transaction costs are immediately recognised through profit or loss under commission expenses in the income statement. They are measured at fair value through profit or loss. Gains/losses on remeasurement and realised gains/losses are recognised in net result from financial instruments at fair value. Interest expenses and interest income from trading liabilities and derivatives are recognised in net interest income.

Financial liabilities at fair value (option)
Those liabilities that were voluntarily designated at fair value are recognised in this category. This option referred to as a fair value option may only be used if it eliminates or significantly reduces inconsistencies in the measurement. The financial liabilities primarily relate to issues and time deposits from institutional investors, whose interest rates were fixed for the term. Interest rate swaps were concluded to hedge resulting interest rate risk. New issues containing embedded derivatives, fixed rate issues and time deposits are assigned to this category upon acquisition to avoid an accounting mismatch arising from the hedging derivative. These financial instruments are carried on the balance sheet at fair value as of the settlement date. Transaction costs are immediately recognised through profit or loss under commission expenses in the income statement. They are measured at fair value through profit or loss in net result from financial instruments at fair value, whereby the portion of the fair value attributable to the change in own credit rating is recognised in other comprehensive income (OCI). The interest income and interest expenses are reported in net interest income.

Financial liabilities at amortized cost
Those liabilities for which there is no intention to trade and for which the fair value option was not selected are recognised in this category. They are measured at amortized cost. This is the amount resulting from historical cost including premiums, discounts and incidental acquisition costs. The differences between historical cost and repayment amounts are deferred, amortized according to the effective interest method and recognised through profit or loss in net interest income. Accrued interest on receivables and liabilities as well as premiums and discounts are shown with the respective receivables and liabilities under the relevant balance sheet line item.

Derecognition of financial assets and financial liabilities
A financial asset is derecognised when the contractual rights to receive the cash flows of the financial asset have expired or the entity has transferred its contractual right to receive the cash flows of the financial asset or assumed a contractual obligation to pay the cash flows immediately to a third party under an agreement and has thereby either transferred substantially all of the risks and rewards associated with ownership of the financial asset or has neither transferred nor retained substantially all of the risks and rewards associated with ownership of the financial asset but has transferred control over the asset.

A financial liability is derecognised when the obligation is settled, cancelled, or otherwise expired. However, expired liabilities from the deposits business are not derecognised.

The measurement criteria for the individual categories are described below.

Measurement of financial assets	Measurement
Trading assets	Fair value in the income statement
Financial assets at fair value (non-SPPI)	Fair value in the income statement
Financial assets at fair value (option)	Fair value in the income statement
Financial assets at fair value (OCI)	Fair value in other comprehensive income
Financial assets at amortized cost	Amortized cost

Measurement of financial liabilities	Measurement
Trading assets	Fair value in the income statement
Financial liabilities at fair value (option)	Fair value in the income statement
Financial liabilities at amortized cost	Amortized cost

Fair value
Fair value is the amount at which an asset could be exchanged, or a liability settled in an orderly transaction between market participants on the measurement date.

Active market
Whether an active market exists for financial instruments is relevant for assessing the principles used in accounting for them. A market is considered active if transactions with the asset or liability occur at a sufficient frequency and volume to provide continuous price information. According to the provisions of IFRS 13, the active market is the principal market or the most advantageous market. The principal market is the market with the largest volume and highest level of activity for the asset or liability. For listed securities, this is usually the home exchange. The most advantageous market is defined as the market that would maximise the amount received when selling the asset after transaction and transport costs or minimise the amount paid when transferring the liability. However, as Hypo Vorarlberg acquires/issues securities mostly via OTC markets, it must be checked which market is the principal market for each individual security or, if this does not exist, which market is the most advantageous market.

The Group is guided by several indicators when assessing whether there is an active market. Firstly, certain asset classes are analysed to see if current price quotations are available. Further indicators include the currency-specific minimum size (issue volume) of a security and the trade score (BVAL score) offered by Bloomberg. Bloomberg's BVAL score indicates the level of availability, the quantity of transactions and thus also the reliability of the calculated market value. Securities that are actively traded at binding prices are given a high score.

Fair values on an active market
If a market price from an active market is available, it is used. If no current price quotations are available, the price of the last transaction indicates the fair value. However, if economic circumstances have changed significantly since the date of the last transaction, appropriate methods (e.g. premiums and discounts) are used to determine the current fair value. The primary sources of information for market prices of financial instruments are stock exchange listings, but also the Bloomberg and Reuters price information systems that are important for the OTC secondary market.

Measurement models in the event of an inactive or non-existent market
The measurement models (mark to model) used include deriving the fair value from the market value of a comparable financial instrument (reference bonds) or several comparable identical financial instruments (reference portfolio) as well as present value and option pricing models. For financial instruments with no active market, the fair value is determined according to the DCF model. The expected cash flows are discounted with an interest rate appropriate to the maturity and risk. The following distinction is made in the measurement process depending on the type of financial instrument.

- For interest-bearing instruments, such as receivables, liabilities and interest-bearing over-the-counter securities, the fair value is determined as the present value of future cash flows. The value of this group of financial instruments is therefore determined according to the recognised DCF method, in which the expected cash flows are first discounted using the risk-free swap curve. To measure credit risk, the credit spread is derived from a financial instrument that is comparable in terms of duration, currency and credit rating or, if necessary, using a credit-risk-adjusted credit spread matrix. Reuters calculates rating- and duration-specific credit spreads of corporate bonds. This data is used to create a spread matrix. Spreads for intermediate levels and lower ratings are calculated by linear interpolation (or extrapolation) on the basis of Moody's WARF table. If the current of a counterparty is unknown, the last known credit spread is used. These derivations and calculations are based on maximum input factors observable on the market. If there are no sufficiently usable input factors on the market, the calculation is based on internally measured input factors. These include internal ratings and internal probabilities of default. In the case of liabilities, own credit risk is measured using reference portfolios. The financial instruments to be measured are assigned to the categories of public placements, private placements and retail issues depending on their placement type. Furthermore, they are divided into senior unsecured, subordinated and covered bonds. Depending on the currency and remaining term, own credit risk is now derived taking into account the internal rating from the available reference portfolios with the same characteristics. An adjustment is made for private placements in order to accommodate the current issue level of private placements compared to public placements. If there is no market data for certain remaining terms, the calculation uses linear interpolation or extrapolation of market data.

- For equity securities the following hierarchy of valuation techniques may be derived for reliable fair value measurement:

  1. Market approach
     Calculation based on derivation from comparable input factors observable on the market
  2. Income approach
     Discounted cash flow (DCF) method based on the entity/equity approach

- For derivatives, fair value is determined using input factors observable on the market, such as yield curves and ex-change rates. Specifically, derivatives are discounted – especially in hedge accounting – using the OIS yield curve and the swap curve customary on the interbank market. For derivatives collateralised in euros, a swap curve based on the EONIA ("Euro Over Night Index Average") is used as the discount rate. The EONIA is to be replaced by the ESTR ("EURO Short Term Rate") as part of the EU Benchmarks Regulation. This changeover will lead to a change in discounting. The resulting valuation changes will be compensated for with equalisation payments. With regard to accounting for credit spreads, each counterparty's credit spread is measured on a net basis, provided that a corresponding netting agreement exists and in consideration of cash and/or securities collateral. Input factors observable on the market, such as CDS spreads, are also taken into account when determining credit spreads. If no CDS spread is available for our counterparty, the credit spread is measured using internal probabilities of default.

d) Financial guarantees
According to IFRS 9, a financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make,

payment when due in accordance with the original or modified terms of a debt instrument. The obligation from a financial guarantee is recognised as soon as the issuer becomes a party to the contract, i.e. on the date the guarantee offer is accepted. Initial measurement is at fair value as of the recognition date. Generally, the fair value of a financial guarantee on inception is regularly zero, as the value of the agreed premium under fair market contracts equals the value of the obligation for the guarantee. If the guarantee premium is collected in full at the inception of the contract, the premium is initially recognised as a liability and distributed over the term pro rata temporis. If regular premiums are paid from the guarantee, these are deferred and reported in commission income. If there are indications of a deterioration of the guarantee holder's credit rating, provisions are recognised equalling the expected utilisation.

e) Embedded Derivatives

Embedded derivatives – derivatives that are part of and linked to a primary financial instrument – are separated from the primary financial instrument and recognised and measured separately like a standalone derivative at market value (fair value) if the characteristics and risks of the embedded derivative are not closely linked to those of the host contract and the host contract has not been assigned to the HA, non-SPPI or FVO categories. There is no requirement to separate financial assets. Owing to the cash flow criteria, they are measured at fair value. Liabilities are subject to separation and independent measurement of the embedded derivative if the host contract is not already measured at fair value. Owing to the reduction in interest rate risks, interest rate swaps are generally concluded to hedge financial liabilities with embedded structures. Due to the accounting mismatch, these liabilities are voluntarily designated at fair value. There is no longer a separation requirement in these cases. The Group also has embedded derivatives for bonds with conversion options, inflation, fund and equity-linked income payments, CMS steepeners, CMS floaters, reverse floaters, multi-tranches and PRDCs.

f) Repurchase and securities lending agreements

Repo agreements are a combination of regular way purchases or regular way sales of securities with a simultaneous agreement to forward sale or repurchase with the same counterparty. The securities sold in repo agreements (regular way sales) continue to be recognised and measured as securities in the pledgor's balance sheet, as all material risks and rewards remain with the pledgor. As pledgor, we thus continue to bear the credit, market price and liquidity risk of the securities sold in repo agreements. Inflows of liquidity from repo agreements are shown on the balance sheet as amounts owed either to banks or to customers depending on the counterparty. Agreed interest payments are recognised as interest expenses according to maturity. Outflows of liquidity resulting from reverse repos are recognised as loans and advances to banks or customers and measured accordingly. The securities received (regular way purchase) underlying the money transaction are not shown or measured on the balance sheet. Agreed interest from reverse repos is recognised as interest income according to maturity. Receivables from reverse repos and liabilities from repos with the same counterparty are not offset. It is very likely that securities may be collateralised on a net basis, meaning that in the case of reverse repos and repos with the same counterparty, the securities sold or received in repo agreements collateralise the net exposure arising from reverse repos and repos.

The Group accounts for securities lending transactions in the same way as securities from genuine repurchase agreements. Lent securities remain in the securities portfolio and are measured according to the rules of IFRS 9. Borrowed securities are not recognised or measured. Furthermore, collateral provided for securities lending transactions is shown as loans and advances on the balance sheet. The Group recognises securities received from securities lending transactions as liabilities.

As a rule, the Group generally uses internationally recognised clearing houses such as EUREX Clearing AG or the Swiss National Bank when concluding repurchase agreements. Settlement is standardised and secured to the highest possible degree, so no delivery risk is anticipated on the part of the counterparty. Settlement very often takes the form of a triparty repo agreement.

g) Impairment of financial assets

The impairment requirements of IFRS 9 comprise the following financial assets:

- Financial assets measured at amortized cost in accordance with IFRS 9
- Financial assets measured at fair value through OCI (that are not equity instruments)
- Lease receivables within the scope of IFRS 16
- Loan commitments, with the exception of loan commitments recognised at fair value through profit or loss (FVTPL) in accordance with IFRS 9
- Financial guarantees within the scope of IFRS 9 that are not measured at fair value through profit or loss
- Contract assets in accordance with IFRS 15

No impairment is recognised for trade receivables that are immaterial in terms of their amount and maturity. Outstanding items already due are written down directly.

Under IFRS 9, a loss provision shall be recognised at an amount equal to the expected losses over the remaining lifetime. For financial assets whose credit risk has not increased significantly since initial recognition (stage 1) and for financial assets whose credit risk is classified as low, the expected loss shall be recognised over the next 12 months. For financial assets whose credit risk has increased significantly since initial recognition (stage 2), the expected loss shall be recognised over the remaining lifetime. A loan loss provision shall be recognised based on estimated cash flows (estimated cash flow approach) for defaulted financial assets; expected losses are recognised over the remaining lifetime for defaulted financial assets below the significance threshold.

The following formula is generally used to calculate the expected losses:

Exposure at default (EAD) x probability of default (PD) x loss given default (LGD)

The expected losses shall be recognised at the present value and discounted at the relevant effective interest rate for a financial instrument.

The EAD for off-balance sheet items (especially open commitments) is estimated using the credit conversion factor (CCF).

The LGD amount depends on whether it relates to the unsecured portion of the financing or what collateral has been used to secure the financing. Collateral is accounted for using the internal lending value – the LGD is calibrated to this value. The calculation involves breaking a financial instrument down into EAD layers based on collateral and the uncovered portion – the relevant applicable LGD is then applied for each layer.

Exemption for financial assets with a low credit risk

For financial assets with a low credit risk at the reporting date, impairment is also recognised in the amount of the expected loss over the next 12 months if the credit risk has increased significantly since their addition. The Group applies this exemption exclusively to securities with an external investment grade rating (BBB- / Baa3 or higher).

Allocation to stages

A financial instrument is allocated to stage 1, unless the credit quality has deteriorated significantly since initial recognition or there is a reason for default.

A significant increase in credit risk is determined via quantitative and qualitative factors.

The quantitative increase in the credit risk is ascertained by comparing the forward lifetime PD of the original rating with the lifetime PD of the current rating for the remaining lifetime of a financial instrument. When the quotient of the two values exceeds a certain level, the financial instrument is allocated to stage 2. This certain level is defined in such a way that the rating must have deteriorated by more than two notches on average since initial recognition. For information on the rating scale and the rating systems used, see section G. Financial risks and risk management.

The Group uses the following qualitative indicators to determine a significant increase in the credit risk:

- No original rating available
- No current rating available
- 30 days or more in arrears
- Forbearance measure active
- If a dunning level has been reached

The presumption that the credit risk has increased significantly since initial recognition if financial assets are more than 30 days past due is not rebutted.

Back transfer
When a financial instrument no longer exhibits a significant increase in credit risk, it is allocated to stage 1. In the event of a forbearance measure, there is a two-year good conduct period before the measure is erased. During this period, the customer remains in stage 2. There are no good conduct periods for transfers back from stage 2 to stage 1.

Original rating
The current rating when a financial instrument is initially recognised is recorded as the original rating of the financial instrument. This is normally the customer rating. Internal and external ratings are used. Issue ratings are also used for securities (for mortgage bonds, the issue rating may be better than the issuer's rating).

Identification of losses
The Bank uses various instruments to detect default characteristics and incurred losses early on. The corporate segment reassesses its significant customers every year based on up-to-date documents including customers' statements of account and budget calculations. For small liabilities from private and commercial customers, automated performance ratings are prepared on a quarterly basis. Customer ratings have to be as up to date as possible. There are control processes in place to ensure that the number of old ratings is kept to a minimum.

The qualitative indicators used in the staging process are intended to ensure a prompt transfer to stage 2; the 30 days in arrears indicator is a particularly important one. The measures taken are designed to ensure that there are no significant losses that have not yet been identified.

Stage 3: Credit-impaired financial instruments

All loans with a default rating that matches the definition of default in Article 178 CRR are allocated to stage 3 financial instruments. The Group has decided to adopt the regulatory definition of default for the IFRS impairment model. This applies equally to all financial instruments.

The Group uses the following approaches and indicators to determine whether a financial asset has defaulted:

- Fourth unsuccessful reminder
- 90 days in arrears
- Insolvency – daily requests and comparisons of newly registered insolvency proceedings
- Economic deterioration – continuous credit assessment within the scope of the review and rating process through operating credit risk management and sales units
- Customer "unlikely to pay" – insufficient estimated cash flows – identification through credit risk management
- Significant financial difficulty of the issuer or the borrower (need for restructuring)
- Eroded economic equity in connection with losses

Monitoring is either automated or ensured through close cooperation between sales units, credit risk management and restructuring management.

Impairment / reversals of impairment of financial assets in stage 3 is calculated using either a general approach or the estimated cash flow (ECF) approach. Both approaches are based at individual customer level. The general approach is used for non-significant customers. These are customers whose total exposure is less than TEUR 150. The calculation is performed with a probability of default (PD) of 100 %, solely on a monthly basis and with the LGDs for the default category.

The ECF approach is used for significant defaulted customers in stage 3. A customer is classified as significant if their total loans and off-balance sheet items exceed a customer exposure of TEUR 150. The amount of the loan loss provision equates to the difference between the carrying amount of the asset and the present value of estimated future cash flows (contractual cash flows and collateral cash flows). The scenario-weighted impairment requirement is calculated based on the expected returns including the expected collateral.

Different scenarios must be presented and weighted accordingly when calculating the requirement for loan loss provisions based on the customer's status.

The Group has defined the following scenarios:

Contractual cash flow scenario
In this scenario, only capital and interest rate cash flows arising from contractual arrangements are applied over the entire lifetime. Any potential proceeds from the realisation of collateral are not taken into account. When estimating cash flow amount, it is assumed that these cash flows will be completely fulfilled over the remaining lifetime of the item. This also applies to off-balance sheet items. This scenario only applies to customers who are in a good conduct period following recovery.

Going concern scenario
In the going concern scenario, it is assumed that the customer is making all its interest and/or capital payments and realisation of available collateral is not necessary.

Gone concern scenario
The gone concern scenario is based on the assumption that the customer is no longer meeting its low contractual cash flows and is therefore only able to cover its outstanding loans largely through proceeds generated from the realisation of furnished collateral.

Loan loss provisions based on status
The going concern and gone concern scenarios are weighted differently based on the status (still undergoing restructuring or already in realisation phase). The closer the realisation status is, the higher the weighting of the gone concern scenario. This weighting based on status approach has been set out in a work instruction. Any change to this defined weighting is documented by the person responsible.

Recovery
Requirements for the return of an exposure to standard support include adhering to a good conduct period of at least 6 months. Requirements for the commencement of the good conduct period include the customer's recovery and:
- No arrears on accounts
- No impairment (except for global valuation allowances)
- No active forbearance measures
- There have been no (partial) loan write-downs

If there are objections during the good conduct period (see definition of good conduct below), the good conduct period will be ended. For the duration of the good conduct period, the customer remains in default and retains its default rating (5e rating).

Definition of good conduct:
- Repayments are made as agreed
- No new forbearance measures
- No new impairment (except for global valuation allowances)
- No new default event
- No third-party executive measures
- No returns on the account

If the customer is still in the probationary phase on account of a legitimate forbearance measure, the good conduct period can end on no earlier than the expiration date of the minimum forbearance observation period. Once the good conduct period expires, the customer receives the rating grade "NR" (not rated) until a performing rating is issued.

Derecognition
Loans or parts of loans and securities that are no longer likely to be recoverable shall be derecognised. An unrecoverable loan exists, for example, if at least two execution runs have been unsuccessful, the customer does not earn any seizable income in the long term or there are other liabilities in an equally high amount, meaning there is no prospect of the loan or parts of the loan being recoverable. Loans and securities shall also be derecognised, in part or in their entirety, if a part of or the full amount outstanding has been waived. This can occur within the context of insolvency proceedings (restructuring plan, payment schedule, absorption proceedings) or an out-of-court settlement.

Forbearance
Forborne exposures are exposures for which concessions have been made towards borrowers who are in danger of no longer meeting their payment obligations on account of financial difficulties. A forborne exposure exists only if both the following elements are covered:
- The modified/refinanced contract includes a concession and
- Payment difficulties are identified

Forbearance concessions can be granted to borrowers in the performing category (rating 1A to 4E) and in the non-performing category (rating 5A to 5E). A borrower is continued to be classified as performing if the forbearance measure does not lead to non-performing status and the borrower was in the performing range at the time of the forbearance measure.

All the following conditions must be met for the forbearance status to be discontinued:
- An economic circumstances analysis leads to the belief that the borrower is able to meet its payment obligations
- The loan is classified as performing
- At least two years (probation period) has passed since the contract has been classified within the performing range
- The borrower has met its payment obligations regularly to a significant extent and during at least half the probation period
- All the borrower's exposures are less than 30 days past due during and at the end of the probation period

Transactions involving forbearance measures that are within the performing range are monitored continuously. Furthermore, transactions involving forbearance measures undergo special observation to check for overdrafts exceeding 30 days.

These measures ensure that a transaction involving a forbearance measure is in the non-performing range as soon as the following occur:
- The desired outcome of the forbearance measure (re-establishing proper loan management as per the contract) does not materialise or is no longer guaranteed.
- There is a payment default exceeding 30 days.
- Another forbearance measure is granted during the probation period.
- The customer fulfils another stipulated default criterion.

Generally, a loan loss provision in stage 2 is calculated for all transactions involving a forbearance measure that are within the performing range. A loan loss provision in stage 3 is recognised for transactions involving a forbearance measure that are already in the non-performing range. Loans and advances with forbearance measures are shown in note (62).

Determining parameters for calculating expected loss
The starting point for determining the parameters are the through-the cycle (TTC) estimates for these parameters. A TTC estimate claims to be relatively stable over the business cycle.

TTC PD
PD for customer business is estimated on the basis of a history of the Bank's own defaults. The calculation takes into account portfolios of the Bank that are large enough for statistically stable assumptions and that have contained a sufficient number of defaults to estimate the default rates for the vast majority of current rating grades. This is the case for private and corporate customers of the Bank. This approach cannot be used for banks and states, as only very few defaults have been observed in these customer groups in the Bank's portfolio. For these two customer groups, PD curves are calculated using matrix multiplication based on publications from rating agencies.

LGD

For a description of the main types of collateral, see section G. Financial risks and risk management. LGD is defined as a workout LGD. The Bank's LGD is calculated based on its default data. It factors in proceeds and direct costs from realisation. The cash flows are discounted at the respective effective interest rate of a financial instrument. If this is not available, they are discounted at the average interest rate of the respective defaulted non-current financial instruments. To calculate unsecured and secured LGDs, the proceeds are distributed according to the waterfall principle. They are first allocated to the collateral starting with the collateral with the lowest LGD. This means that proceeds are first allocated to cash collateral and guarantees, followed by mortgage-backed securities. For this purpose, collateral is calculated at the time of default to determine the estimated proceeds. Proceeds not yet distributed are subsequently allocated to the unsecured portion. A mark-up is applied to ensure an undistorted estimate of the parameter over an economic cycle.

The real estate LGD is calculated using the same method for the leasing portfolio in Bolzano. A mark-up is applied to offset the effects of the declining property market in northern Italy on this key figure. In this way, an undistorted estimate over the economic cycle is to be obtained.

Data gathering is also used for the Swiss portfolio and the Austrian leasing portfolio. However, the number of defaults and realisations are much too low to be able to make an assumption on this basis.

The Group estimates its own LGDs for the unsecured portions of defaulted exposures. The ECF valuation allowance is used as the best estimate for the anticipated future loss. It is assumed that the LGDs depend on the different processing steps at the Bank.

CCF (credit conversion factor)

The Bank calculates the CCF of defaulted loans. The calculation measures the development of scope of use during the twelve months before a default. The results can vary greatly; the low data basis is a factor here. Hence the Bank (like internal risk management) uses the regulatory CCF in conjunction with the maturity profiles from internal risk management. This currently represents the best form of estimate.

Early repayments

Early repayments have little relevance over a twelve-month period in stage 1. It can be assumed that no significant early repayments are possible for stage 2 cases. Early repayment profiles are not taken into account.

Repayments of instruments with an indefinite term

For instruments with an indefinite term, maturity is estimated from the Bank's portfolio. The same maturity profiles are applied as for internal risk management.

Point-in-time (PIT) adjustment

PIT adjustment of parameters that were found to be dependent on macroeconomic variables is used to incorporate current and expected (forward-looking information, FLI) on the macroeconomic situation and to estimate the impact of such on the expected loss.

An assessment was carried out to determine whether the parameters PD, LGD and CCF are dependent on independent variables. For the CCF and the LGD, no significant dependencies with an economically explicable cause and effect could be identified.

For the PD, dependencies and models were identified for the segments formed. The approach for forming the segments is described below. Based on the Bank's customer segments, a consolidation was performed in line with these criteria:
- similar types of institution
- similar risk characteristics (PD, default rate, warranties)
- similar rating methods

This resulted in the following segments:
- banks
- states
- private customers
- corporate customers

Given that banks and states represent low-default portfolios, it does not make since to adjust the PIT on the basis of internal data. On the basis of external data, too, no suitable possibility could be identified to take account of the macroeconomic data without requiring disproportionate costs and effort. The TTC PD is therefore used as the best estimate for the PIT PD for these two segments.

For the private customers and corporate customers segments, the Group examined whether the default rates in the regions where it operates differ. Based on this examination, the Group differentiates between the segments of the leasing subsidiaries in Bolzano and the rest of the Group. This results in the following segments for which PIT models were estimated:
- corporate customers in Austria (and other countries except Italy)
- corporate customers in Italy
- private customers in Austria (and other countries except Italy)
- private customers in Italy

The model search was based on the linear regression method. This determines the dependency of certain variables (dependent variables, in this case default rates/loss rates) on other variables (independent variables, in this case a selection of macroeconomic parameters). To determine this dependency, time series of the variables in question covering the modelling period were compared against one another. Annual default rates in the period from 2007 to 2019 were used.

The following independent variables were used:
- Real GDP Austria, Italy – y-o-y change, real, in %
- HICP Austria, Italy – y-o-y change, in %
- Unemployment rates Austria, Italy, in % of labour force
- Unit labour costs Austria, Italy – y-o-y change, in %
- Private consumer spending Austria – y-o-y change, in real terms based on previous year's prices, in %
- Public-sector consumption Austria – y-o-y change, in real terms based on previous year's prices, in %
- Gross fixed capital formation (GFCF) Austria – y-o-y change, in real terms based on previous year's prices, in %
- Exports Austria – y-o-y change, in real terms based on previous year's prices, in %
- Imports Austria – y-o-y change, in real terms based on previous year's prices, in %
- Net exports Austria = exports Austria - imports Austria
- Housing price index Austria total – y-o-y change, in %

For the Italian regions of Lombardy, South Tyrol, Trento and Veneto, regional GDP and GFCF growth data were used. The use of interest rates and credit spreads was examined. Economically, an increase in interest rates would be expected here in economically uncertain times. In the current phase of the central banks' low interest rate policy, this context obviously does not apply. This is a problem in the PIT adjustment in particular, as when using interest rates the ECL results would fall instead of rising when the economic conditions are weak and interest rates are low.

To take account of the fact that the Group's Italy exposure is concentrated in northern Italy and that the northern Italian economy tends to post better key figures than Italy as whole, synthetic macro-variables ("mix" variables) were created for northern Italy for use in the regional adjustment of the models for corporate customers and private customers.

Based on the model estimate, the following macro-variables are selected for each PIT model:
- Corporate customers in Austria (and other countries except Italy): GDP change Austria, lag of 1 year
- Corporate customers in Italy: GDP change mix, lag of 1 year
- Private customers in Austria (and other countries except Italy): HICP Austria, GFCF Austria
- Private customers in Italy: HICP Italy, GFCF mix

Regional differentiation was carried out such that the differences between the TTC default rate and the default rate of the estimated model were applied to the result.

When identifying and taking account of FLI in the PIT models, the following approach is taken:
- The forecasts used must come from independent, established institutions.
- The forecasts must be as up to date as possible.
- A substantiated adjustment of the forecasts is possible.
- If scenarios for individual variables are available, these can be used in conjunction with a scenario weighting.
- The FLI adjustment is to be applied for up to three years (36 months from the current reference date) if possible. At the end of this period at the latest (from month 37 onwards), the long-term average of the respective variables is used.
- However, forecasts generally relate to calendar years and are available for the current calendar year and the two subsequent calendar years at most. If the forecasts do not cover the full 36 months from the current reference date, then the long-term average is used instead of a forecast.
- The variables in the models must be used in line with the model estimate as far as possible. The model estimate was based on calendar years. An even distribution of defaults within the calendar years is assumed. This means that the value for a variable without a lag is calculated as the average from the six months before and the six months after the current reference date. A variable with a lag of one year is calculated as the average from the six months before and the six months after the date one year before the current reference date.
- Parameterisation is generally carried out in March and in September. In the event of significant changes in the variables, parameterisation may be carried out more frequently.
- The long-term average of a variable is calculated in line with the period that was used in the model estimate.

As of the end of 2021, the following weightings and macroeconomic parameters are used. The figures for the main scenario are forecasts by WIFO and IHS for Austria and Banca d'Italia for Italy. The OeNB sees the beginning of the fourth wave of COVID-19 as a setback to the recovery of the Austrian economy as of the end of 2021/start of 2022. With the waning of the negative effects of the fourth wave of COVID-19 and the resolution of the global supply bottlenecks, the economy will recover quickly. The OeNB's forecast does not consider potential negative effects of the Omicron variant discovered at the end of 2021. The negative and positive scenarios were calculated by determining the historical forecasting errors and applying them to the main scenario.

Country	Variable	Weight	2021	2022	2023+
Austria	GDP Main scenario	80.00 %	4.45 %	4.65 %	1.30 %
	GDP Negative scenario	10.00 %	4.23 %	2.18 %	1.30 %
	GDP Positive scenario	10.00 %	4.50 %	5.16 %	1.30 %
	HICP Main scenario	80.00 %	2.70 %	2.65 %	1.92 %
	HICP Negative scenario	10.00 %	2.75 %	3.23 %	1.92 %
	HICP Positive scenario	10.00 %	2.65 %	2.12 %	1.92 %
	BAI Main scenario	80.00 %	7.65 %	3.95 %	1.82 %
	BAI Negative scenario	10.00 %	7.38 %	0.94 %	1.82 %
	BAI Positive scenario	10.00 %	7.84 %	6.05 %	1.82 %
Italy	GDP Main scenario	80.00 %	5.10 %	4.40 %	2.30 %
	GDP Negative scenario	10.00 %	4.92 %	2.46 %	2.30 %
	GDP Positive scenario	10.00 %	5.14 %	4.84 %	2.30 %

Currently, defaults resulting from the pandemic are expected to peak in 2022, after the government support measures expire. However, it should be noted that the current forecasts are subject to a high level of uncertainty. The effects of the Omicron variant and the (partial) lockdowns around the end of 2021/start of 2022.

There is no indication that sustainability risks will be reflected in increased risk costs in the short term. There are still no confirmed data, models or forecasts for the medium- and long-term measurement and recognition of sustainability risks. The Bank is making efforts to estimate the potential impact of sustainability risks (see explanations in section G. Financial risks and risk management).

Purchased or originated credit-impaired (POCI) financial instruments

POCI financial instruments are financial assets that already show objective evidence of impairment when they are initially recognised (credit-impaired assets). POCI assets can arise in three cases:
- Acquisition of POCI assets through the purchase of a significantly credit-impaired financial instrument (purchased credit impaired), such as acquiring a financial asset at a price that includes a significant credit discount.
- New transaction with a customer that has a default rating (fresh money and bridge loans). Additions that result in a significant increase in exposure of the uncovered portion and that are in the early phase of restructuring (recovery still uncertain).
- Substantial modification of a financial asset in stage 3 due to credit rating, which results in the reclassification of the original financial instrument and to the new addition of a modified and impaired financial instrument (originated credit impaired).

Steps are taken to ensure that POCI instruments at least always include an estimated loan loss provision over the remaining life-time. In the case of a POCI instrument, the expected cash flows are discounted at the credit-risk-adjusted effective interest rate and the present value is recognised on initial measurement. The change in present value leads to an impairment or reversal of impairment in the subsequent valuation.

Financial assets at amortized cost
If there is objective evidence of impairment, the amount of the loss is given by the difference between the carrying amount of the asset and the present value of the estimated future cash flows. The calculation of the present value of the estimated future cash flows of collateralised financial assets reflects the cash flows resulting from realisation less costs for obtaining and selling the collateral.

For loans and receivables, impairment is netted with the underlying receivable in the respective balance sheet item. The loss (allocation) is reported in the income statement under loan loss provisions and impairment of financial assets. Interest income from impaired assets in stage 3 is deferred further on the basis of the reduced carrying amount, applying the interest rate used to discount the future cash flows for the purpose of calculating the impairment loss. This interest income is included under net interest income.

Loans are derecognised together with the associated impairment if there is no realistic prospect of future recovery and all collateral has been claimed and utilised. If the impairment increases or decreases in a subsequent period due to an event occurring after the recognition of impairment, the allowance account previously recognised for loans and receivables is increased or decreased by the amount of the difference. Reversals of impairment are reported in the income statement under the same item as the impairment loss itself.

Financial assets at fair value (OCI)
For debt instruments assigned to the "hold for sale" business model and thereby included in the financial assets at fair value (OCI) category, impairment shall be recognised in the same way as for financial assets at amortized cost. Impairment and reversal of impairment is recognised through profit and loss under loan loss provisions and impairment of financial assets. For financial assets at fair value (OCI), the recognised impairment is not deducted from the asset's carrying value, but rather the impairment reduces accumulated other comprehensive income (OCI).

Off-balance sheet items
Loan loss provisions for off-balance sheet items, such as warranties, guarantees and other loan commitments, are included under provisions; the associated expense is recognised through profit and loss under loan loss provisions and impairment of financial assets.

COVID-19
Accounting policies
Due to the spread of COVID-19, the governments of the countries in which Hypo Vorarlberg operates have taken various measures to mitigate the economic effects for individual market participants. These measures included public moratoriums for the repayment of loans, overdrafts and mortgages. Hypo Vorarlberg has offered renegotiations of repayment plans and deferrals on a voluntary basis for customers with liquidity shortages.

Public moratoriums relate only to performing loans whose risk exposure already existed before the COVID-19 crisis. Hypo Vorarlberg has granted accommodations for payment on request by customers. Effects from modification due to COVID-19-driven contract adjustments are recognised under miscellaneous other expenses due to their immateriality. The resulting modification gain or loss corresponds to the difference between the gross carry-ing amount before the modification and the present value of the cash flows of the modified asset, discounted at the original effective interest rate. Loan loss provisions and impairment are lower due to the better macroeconomic conditions and improved ratings. The effects of COVID-19-related credit losses on the estimate and on the credit portfolio are described in section G. Financial risks and risk management. The actual results may differ from the management's estimates. All effects that could be reliably estimated were taken into account. The Bank has not drawn any benefits for the use of reduced working hours. An investment grant was applied for, but is immaterial. The estimates for credit losses have been adjusted in line with the accounting policies. The outlook with regard to negative effects on the capital and liquidity situation due to the COVID-19 crisis is stable. The company's ability to continue as a going concern is not jeopardised by the COVID-19 crisis.

Conflict between Russia and Ukraine
As the emerging conflict between Russia and Ukraine devolved into war, the various departments of Hypo Vorarlberg looked at the consequences for the Bank and its business model. At the time of reporting, no material risk – either direct or indirect – was identified.

h) Hedge accounting
As part of risk management, Hypo Vorarlberg has identified risks that are hedged by derivative financial instruments. Derivative instruments that are concluded as part of the Group's hedging strategy but do not qualify for hedge accounting are recognised as held for trading in the financial statements. This is the case for customer derivatives and their offsetting hedge.

One of the main driving forces of fluctuations in the market value of fixed income financial instruments is the change in the relevant reference interest rate such as EURIBOR. In the Group, this interest rate risk is kept within the defined limits by the conclusion of hedging transactions in accordance with the risk management strategy. The hedging instruments transfer the fixed rate of return into a variable interest rate linked to the reference interest rate and thus enable a transfer of the interest-induced market price risk. In addition, changes in exchange rates result in fluctuations in the market value of financial instruments in foreign currencies. In the Group, this currency risk is kept within the defined limits by the conclusion of hedging transactions in accordance with the risk management strategy. The hedging instruments transfer payments in foreign currencies into fixed payments in Euro, thereby enabling a transfer of the currency-induced market price risk.

Underlying transactions are in the categories of financial assets at amortised cost and financial liabilities at amortised cost. The Group uses derivative instruments such as interest rate swaps, currency swaps and cross-currency swaps to hedge currency and interest rate risks. In the course of dedicating a hedging relationship to hedge accounting in accordance with IFRS, a formal documentation is made that describes, among other things, the type of hedging relationship, the hedged risk, the economic context, the risk management objective of the hedging relationship and the method of assessing effectiveness. Following the reform of the Interbank Offered Rate (IBOR), the documentation must be amended to reflect modifications to the hedged item, hedging instrument and hedged risk.

The effectiveness of the hedging relationship is an essential condition for the application of hedge accounting. In many cases, the economic relationship is proven qualitatively and forward-looking by documenting the match of the most important risk-relevant parameters between the underlying and hedging transactions at the time of documentation. This check is referred to as a critical terms match (CTM). If the key business parameters are not aligned or, in the case of amended contracts, are no longer aligned to the usual extent of a standard economic hedge, a purely qualitative assessment would be associated with a high degree of uncertainty. In these cases, the final assessment may be based on the results of quantitative methods. The quantitative assessment of effectiveness is carried out prospectively using the dollar offset method.

Only fair value hedges have been used in the Group so far. A hedge exists if one or more hedges can be clearly allocated to a hedged item.

Fair Value Hedges
For underlying transactions measured at amortized cost, the change in the fair value in the hedged item resulting from the hedged risk is recognised in the income statement as part of the carrying amount of the underlying transaction (basis adjustment). The change in the fair value of the corresponding hedge is also recognised in the income statement. Any ineffectiveness will thus take direct effect in the income statement. If equity instruments for which the OCI option has been exercised are designated as hedges under hedge accounting, the change in the fair value of the derivative, including any ineffectiveness, is recognised in accumulated other comprehensive income.

Fair value hedges are employed to reduce market value risk. For designated and qualified fair value hedges, the change in the fair value of the hedging derivative is recognised through profit and loss under net result on financial instruments at fair value. In addition, the carrying amount of the hedged item is adjusted through profit or loss for the gain or loss that can be attributed to the hedged risk. Fair value hedges are primarily used to hedge interest rate risks. The main items hedged are therefore financial instruments with fixed and structured interest in the form of acquired and issued securities, loans and time deposits. In individual cases, interest rate and currency risks are hedged together.

If a hedging instrument expires, is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting, the hedging relationship is terminated. In this case, the adjustment of the carrying amount of a hedged financial instrument is reversed through profit and loss under net result on hedge accounting until the maturity of the financial instrument.

i) Offsetting financial instruments
The Group has not offset any financial instruments in these consolidated financial statements as it does not intend to settle receivables and liabilities on a net basis. In connection with derivatives, in particular, the Group has concluded master netting agreements with the aim of bringing about settlement on a net basis in the event of a counterparty default, taking into account any collateral delivered or pledged. More detailed disclosures on offsetting financial instruments are shown in note (57).

j) Leases
A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. We classify a finance lease as a lease that transfers substantially all the risks and rewards incidental to ownership of the asset. All other leases in our Group are classified as operating leases.

Accounting as lessor
Leases are assessed according to whether the risks and rewards of ownership of the leased item are borne by the lessor or by the lessee and recognised accordingly as a finance or operating lease. Leased assets attributable to the lessee (finance leases) are shown at net investment in the lease (present value) under financial assets at amortized cost in note (23). The net investment in the lease comprises the present value of the contractually agreed payments taking into account any residual values. Finance lease income is shown as interest income under note (6). In the Group, receivables from finance leases under which the leased asset is attributable to the lessee primarily relate to real estate properties. In the case of operating leases, the leased assets are reported under property, plant and equipment under note (26) or as rented properties under investment property under note (27). Lease income is recognised on a straight-line basis over the lease term. Lease payments received in the period are reported under “Other income” in note (11), maintenance expenses and operating costs under “Other expenses” in note (12) and depreciation and amortization in the “Depreciation and amortization” item in note (14). Leases in which the Group acts as lessor are classified almost exclusively as finance leases.

Accounting as lessee
IFRS 16 stipulates that both the asset representing the right of use and the liability representing the lease payment obligation are to be shown in the lessee’s balance sheet. At the start of the contract term, an assessment is made as to whether the contract constitutes a lease and whether the contract transfers control of the identified asset for a certain period in exchange for a fee. The right of use and the liability are recognised at the start of the term. The right of use is recognised at cost at the commencement date and is subsequently amortized over its useful life or over the contract term if shorter. In our Group, amortization is carried out on a straight-line basis and recognised as an expense in the “Depreciation and amortization” item.

When the leased asset is transferred to the lessee, the lease liability is measured. This is done at the present value of the remaining lease payments for the period of use anticipated by the management. It is discounted at the interest rate implicit in the lease, provided this can be determined on the basis of the contract. If this is not the case, it is discounted on the basis of a calculated borrowing rate. The Group calculates this rate using the risk-free yield curves adjusted by mark-ups based on its own credit risk, the amount of the loan, the term and, if necessary, existing collateral.

The standard provides for exemptions for the recognition of short-term leases and leases for which the value of the underlying asset is immaterial. Specifically, this relates to leases whose term does not exceed one year and whose equivalent value is less than TEUR 5. The Group makes use of the exemptions for short-term and low-value leases. Lease payments for short-term and immaterial leases are recognised as expense in the “Administrative expenses” item.

Lease payments consist of fixed lease payments, variable lease payments, which are generally index-linked, amounts to be paid under a residual value guarantee, the exercise price of a purchase option and compensation payments for termination of the lease.

On subsequent measurement, the carrying amount of the lease liability accrues interest at the relevant rate, is reduced by the lease payments already made and is remeasured to take account of adjustments or modifications, particularly in the case of leases with an indefinite contractual term.
The rights of use and disclosures on them are reported in the “Property, plant and equipment” item of the balance sheet in note (26). The lease liabilities and disclosures on them are reported in the “Financial liabilities at amortized cost” item in note (35).

There were no sale-and-leaseback transactions in the Group in 2021 or in the previous year.

k) Investment property

On initial recognition, investment property is measured at cost plus ancillary costs. Investment property is subsequently carried at cost less cumulative depreciation and/or cumulative impairment losses. Investment property includes properties held to earn rental income and/or for capital appreciation, not for providing services, for administrative purposes or for sale in the ordinary course of business. Leased properties are also reported under this balance sheet item if the leased assets are attributable to the lessor (operating leases). Lease income is recognised on a straight-line basis over the term of the contract.

A sworn and court-certified appraiser employed by Hypo Immobilien & Leasing GmbH regularly draws up valuation appraisals for investment property. The appraiser uses the income capitalisation approach, the market approach and other approaches to value these assets. The appraiser then compares the ascertained value with the real estate market and makes a further adjustment if necessary. For larger properties, appraisals are also prepared by independent third parties.

Rental income is recognised under other income (note (11)). Depreciation is reported under depreciation (note (14)) and maintenance expenses for these properties are reported under other expenses (note (12)). The balance sheet item investment property under note (27) includes buildings with finite useful lives. Depreciation is applied on the basis of the following typical operational useful lives.

Typical operational useful life	in years
Investment property	25 - 50

No contingent rentals were recognised as income in the reporting period. The statement of operating expenses for investment property for which no rental income was generated in the reporting period results in disproportionately high expenses without increasing the informational value of the financial statements with regard to the Group's core business.

l) Intangible assets

Intangible assets are recognised at cost on initial recognition and subsequently carried at cost less cumulative amortization and cumulative impairment. Intangible assets are recognised only if it is probable that the expected benefits will flow to the enterprise, and the cost can be determined reliably.

Intangible assets with finite useful lives are amortized on a straight-line basis over their economic lives and tested for potential impairment. The amortization period and the amortization method for intangible assets with finite useful lives are reviewed at least at the end of each reporting period.

Typical operational useful life	in years
Standard software	3
Other Software	4
Specialist software	10

m) Property, plant and equipment

Property, plant and equipment is carried at cost less cumulative depreciation and/or cumulative impairment losses. Depreciation is applied on a straight-line basis over the estimated useful life. Physical wear and tear, technical obsolescence and legal and contractual restrictions are considered when determining the useful life of property, plant and equipment. Land is not depreciated. Cost includes the costs for replacing parts of an item of property, plant and equipment and the borrowing costs for major, long-term construction projects if the recognition criteria are met. As of the reporting date and in the previous-year period, there were no liabilities or obligations from asset purchases or the construction of plant. There were likewise no restrictions on title, and no items of property, plant and equipment were pledged as security for liabilities. Depreciation is applied on the basis of the following typical operational useful lives.

Typical operational useful life	in years
Buildings	25 - 50
Operational and office equipment	5 - 10
Construction on leased premises	10
IT-Hardware	3

In addition, impairment is recognised if the recoverable amount is lower than the carrying amount of the asset. Property, plant and equipment is derecognised either on disposal or when no more economic benefit is expected from the further use or sale of the recognised asset. Gains or losses arising from the disposal of the asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and recognised through profit and loss in the period under other income or other expenses in the income statement.

n) Impairment of non-financial assets

At each reporting date, the Group determines whether there are indications of impairment of non-financial assets. If there are such indications, or an annual impairment test is required for an asset, the Group estimates the recoverable amount of the respective asset. The recoverable amount of an asset is the higher of the asset or cash-generating unit's fair value less costs to sell and the value in use. The recoverable amount is determined for each individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If the carrying amount of an asset or cash-generating unit exceeds the recoverable amount, the asset is impaired and written down to its recoverable amount. To determine value in use, the estimated future cash flows are discounted to their present value on the basis of a pre-tax discount rate that reflects current market expectations regarding the time value of money and the specific risks of the asset. An appropriate measurement model is used to determine the fair value less costs to sell.

The Group bases its impairment testing on detailed budgets and forecasts prepared separately for each of its cash-generating units to which individual assets are attributable. Such budgets and forecasts usually cover a period of five years. Impairment losses of continuing operations are recognised through profit or loss in the expense categories corresponding to the impaired asset's function in the Group. This does not apply to previously remeasured assets if the increases in value resulting from remeasurement were recognised in other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount from a preceding remeasurement. Non-financial assets are tested for impairment once a year (as of 31 December). A test is also performed when circumstances indicate that the value could be impaired.

o) Income tax assets

Current taxes

Current income tax assets and liabilities are calculated on the basis of the tax provisions of each country using current tax rates, which determine the reimbursement from and payment to the respective tax authorities. Assets and liabilities are recognised only for expected claims against and obligations to the tax authorities. Current income tax assets and liabilities are set off only if the Group has a legally enforceable right to set off the reported amounts and actually intends to settle on a net basis. This occurs in the Group in particular in connection with group taxation. Performance-based current tax expenses are recognised in the Group's income statement under taxes on income.

Deferred taxes

Deferred taxes are recognised and measured according to the balance sheet-based liability method. The measurement for each taxable entity uses the tax rates applicable by law in the taxable period. Deferred taxes are not discounted. The effects of the recognition or reversal of deferred taxes are also including in the Group's income statement under taxes on income, unless deferred income tax assets and liabilities relate to items measured in other comprehensive income. In this case, the deferred taxes are recognised or reversed in other comprehensive income.

Deferred income tax assets reflect the potential tax benefits from temporary differences between the carrying amounts of assets and liabilities on the consolidated balance sheet according to IFRS and the tax base according to local tax provisions of Group companies. Deferred income tax assets are only recognised if there are sufficient deferred income tax liabilities within the same tax entity or it is sufficiently likely that taxable income will be generated in the same tax entity in the future. This also applies to the recognition of deferred income tax assets on tax loss carry forwards.

Deferred income tax liabilities reflect the potential tax expenses from temporary differences between the carrying amounts of assets and liabilities on the consolidated balance sheet according to IFRS and the tax base according to local tax provisions of Group companies.

p) Non-current assets available for sale and liabilities relating to assets available for sale
Non-current assets are classified as available for sale if they can be sold in their present condition and the sale is probable within 12 months of the classification. Assets available for sale are reported in the balance sheet item "non-current assets available for sale". Non-current assets classified as available for sale are measured at the lower of the carrying amount and fair value less costs to sell.

The item non-current assets available for sale may include properties that were subject to finance leases. These finance leases were terminated or cancelled prematurely. This item may also include leased assets that are to be sold after the expiry of the lease. In addition to properties, equity investments may also be recognised in this item. However, the Group assigns the assets to this balance sheet item only if there is a realistic possibility of a sale within 12 months. No regular depreciation is recognised for these assets, but impairment is recognised if the fair value less costs to sell falls below the carrying amount. If a sale is not possible in the medium term, the properties are usually rented out or let. In these cases, they are reclassified to investment property. If neither sale within 12 months nor medium-term rental appear realistic, they are reclassified to the other assets item of the balance sheet.

A disposal group is a group of assets, possibly with associated liabilities, that an entity intends to sell in a single transaction. The measurement basis and the criteria for the classification as available for sale is applied to the entire Group. Assets that are part of a disposal group are reported on the balance sheet under "non-current assets available for sale". Liabilities relating to assets available for sale that are part of a disposal group are reported on the balance sheet under "liabilities relating to non-current assets available for sale". There are no liabilities relating to non-current assets available for sale.

All income and expenses relating to assets available for sale are recognised in the income statement under the result from non-current assets available for sale.

q) Provisions
A provision is recognised if the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. We therefore recognise provisions for uncertain obligations to third parties and onerous contracts in the amount of the expected utilisation. The amount recognised for a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The estimate takes risks and uncertainties into account. Provisions are recognised at present value where the effect of the time value of money is material. Provisions under note (37) also include credit risk provisions for off-balance-sheet transactions (especially warranties and guarantees) and provisions for litigation. Expenses or income from the reversal of credit risk provisions for off-balance-sheet items are recognised in the income statement under loan loss provisions and impairment of financial assets (note (15)). All other expenses or income in connection with provisions are recognised in administrative expenses (note (13)) and under other expenses (note (12)).

The Group's social capital is also shown under provisions. Social capital means provisions for defined-benefit plans for employees. Social capital includes provisions for pensions, severance, anniversary bonuses and disability risk. The liability recognised from a defined-benefit plan equals the present value of the obligation less the fair value of the plan assets out of which the obligations are to be settled directly. The present value of the obligation exceeds the fair value of the plan assets in all plans.

Pensions
At Hypo Vorarlberg Bank AG 10 (2020: 11) pensioners and their surviving dependants are entitled to a defined-benefit bank pension. This is a final salary plan based on a works agreement. A defined-contribution pension agreement has been concluded with the active employees entitled to a pension. On the basis of the statutory requirement according to the Swiss Occupational Pensions Act (BVG), 26 Mitarbeiter employees (2020: 24) of the St. Gallen branch are entitled to a defined-benefit pension. The Group and the employees make contributions to the BVG collective foundation Swiss Life, which is managed by Swiss Life AG. There is no other constructive obligation from normal commercial practice.

Severance
Austrian labour law previously required a compensation payment to be made to employees on termination of their employment relationship under certain circumstances. Severance entitlements are governed by Section 23 of the Austrian Salaried Employees Act. This includes in particular the termination of employment due to retirement. All employees who joined the company before 1 January 2003 are entitled to this severance. Depending on the length of service, the maximum severance entitlement is one year's salary, calculated on the basis of final salary. This is a defined-benefit plan. The Group has recognised a severance provision for these entitlements.

Anniversary bonuses
After 25 and 40 years of service, every employee of Hypo Vorarlberg Bank AG is entitled to an anniversary bonus of one and two months' salary respectively. The entitlement to an anniversary bonus is based on a collective agreement, which stipulates both the conditions and the amount of the entitlement. The agreed payments to a pension fund for defined-contribution plans are expensed on an ongoing basis. The statutory "new severance" payment is likewise expensed on an ongoing basis. There are no further obligations.

Defined-contribution plans
The agreed payments to a pension fund for defined-contribution plans are expensed on an ongoing basis. The statutory "new severance" payment is likewise expensed on an ongoing basis. There are no further obligations.

r) Trust activities
Trust activities that involve the holding or placing of assets on behalf of third parties are not reported on the balance sheet. Commission payments for such activities are included in the income statement within net fee and commission income.

s) Recognition of income and expenses and description of income statement items
Income is recognised if it is probable that the economic benefit will flow to the company and the income can be measured reliably. The following designations and criteria are used for the recognition of income in the items of the income statement:

Net interest income
Interest income is recognised on an accrual basis as long as the interest is deemed collectible. Income that primarily constitutes consideration for the use of capital (usually interest or similar calculation according to timing or amount of the receivable) is allocated to similar income. Interest expenses are recognised in the same way as

interest income. Differences arising from the sale and issue of securities are recognised in the income statement according to the effective interest method. Negative interest is reported openly in Note (6) under interest income for deposits and liabilities and under interest expenses for loans and debt securities. Negative interest amounts are applied in relation to derivatives. As derivatives that are not in a hedging relationship are generally used to hedge interest rate risks, the interest from derivatives is offset against that of the underlying transactions under the relevant interest item in order to take economic hedging into account when reporting net interest income.

Dividend income
Income from equity investments (dividends) and interest from non-fixed-income securities is recognised in this item. Dividends are recognised in the income statement only after the legal right to receive payment of the dividend is established.

Net fee and commission income
Income from the service business and expenses attributable to this income are reported under net fee and commission income. This item contains income and expenses primarily in connection with fees and commissions from payment transactions, securities business, lending business, insurance and real estate brokerage business and foreign exchange business. Lending fees relating to new loans are not recognised in net fee and commission income but instead in interest income as part of the effective interest rate.

Net result from financial instruments at amortized cost
This item includes generated gains and losses of financial instruments measured at amortized cost or at fair value through other comprehensive income.

Net result from financial instruments at fair value
This item comprises several components.

- Trading results
- Result from the valuation of derivatives
- Result from financial assets and liabilities measured at fair value through profit or loss
- Net result on hedge accounting

The fair values of trading assets and liabilities are measured on the basis of market prices. The fair values of non-listed products are measured according to the present value method or using suitable measurement models. As well as realised gains/losses, the net trading result also includes gains/losses on the remeasurement of trading activities. The net result from financial instruments at fair value also includes ineffective portions from hedging and currency gains and losses. The net result from financial instruments at fair value does not include interest and similar income or refinancing costs, which are shown in net interest income. The result from the use of the fair value option does not include the result from change in own credit risk, which is directly recognised in equity.

Other income
This item comprises income that is not directly attributable to the This item includes income that is not directly attributable to the operating activities of the bank. This includes rental income from leased properties, revenue from instalment purchases from leasing customers, gains from the disposal of assets, other income from leasing business and operating cost income. Income from operating leases is recognised on a straight-line basis over the lease term.

Other expenses
This item includes those expenses that are not directly attributable to the current business activity of the banking operation. These include, among others, losses from the disposal of assets, cost of goods for instalment purchases from leasing customers, expenses from the leasing business and operating expenses. In addition, other tax expenses, insofar as these do not represent taxes on income and earnings, as well as expenses from claims or operational risk are included in this item.

Administrative expenses
Administrative expenses include the following expenses accrued in the reporting period and comprise both staff costs and material expenses.

The staff costs include wages and salaries, statutory and voluntary social benefits, employees taxes and levies. Expenses and income from severance, pension and service anniversary provisions are also partially included in this item if they are not included on other comprehensive income. In addition to IT expenses, material expenses also include building expenses, advertising and PR expenses, legal and consulting expenses, staff development expenses (training, recruiting) and other expenses required for running an office.

Depreciation and amortization
This item comprises depreciation and amortization of property, plant and equipment, intangible assets, investment property and rights of use from leases. Impairments from inventory write-downs are recognised in this item.

Loan loss provisions and impairment of financial assets
This item shows the recognition and reversal of valuation allowances and provisions in relation to financial instruments. Direct write-downs and amounts received on loans and advances are also reported in this item.

Impairment of non-financial assets
This item shows the recognition and reversal of valuation allowances in relation to non-financial assets. These impairments comprise the balance sheet items plant and equipment, investment property, intangible assets and other assets.

Taxes on income
This item includes all income-based taxes broken down into current tax expenses, deferred tax expenses and taxes from previous periods.

t) Material judgements, assumptions and estimates
To prepare the consolidated financial statements, the management has to make estimates and assumptions affecting disclosures on the balance sheet and in the notes and the recognition of income and expenses during the reporting period. They relate primarily to estimating the value of assets, determining standard economic lives for property, plant and equipment throughout the Group and recognising and measuring provisions. The estimates and judgements are based on assumptions reflecting the latest information available. Expected future business development is estimated on the basis of the prevailing circumstances as of the date the consolidated financial statements are prepared and realistic assumptions about the future development of the global and industry-specific environment. Developments in these conditions that deviate from these assumptions and lie outside of the management's sphere of influence can cause differences in actual amounts compared to the original estimates. Where substantial estimates were required, the assumptions made are described below.

Impairment of financial assets at amortized cost
The Group inspects the credit portfolio for impairment at least once a quarter. It assesses whether identifiable events reduce the expected future cash flows in the credit portfolio. Indicators of impairment include non-compliance with due dates and agreements, the monitoring and analysis of customers' financial circumstances and rating changes. The management takes assumptions based on historical default probabilities for similar credit portfolios into account when estimating future cash flows. A 1 % increase in the impairment ratio (ratio of risk provision to exposure) with respect to the underlying exposure would increase the risk provision by TEUR 1,160 (2020: TEUR 1,207). A 1 % reduction in the impairment ratio with respect to the underlying exposure would reduce the risk provision by TEUR 1,160 (2020: TEUR 1,207). The development of credit risk provisions is shown in note (58). The effects on the income statement are shown in note (15). The carrying amount of the assets underlying the judgements, assumptions and estimates amounts to TEUR 12,390,301 (2020: TEUR 12,332,201).

Fair values of financial instruments measured at fair value in measurement level 3
Many of the financial instruments measured at fair value are not traded on an active market. These fair values are determined using measurement models. When using measurement models, the Group refers to the prices of observable, current market transactions with similar instruments and, when available, uses observable market data in the measurement models. See note (56) for information on the sensitivities of the measurement models used. With regard to the income statement, these assumptions and estimates affect the net result from financial instruments at fair value in note (10). With regard to the measurement of OTC derivatives, credit risk is also taken into account when calculating fair value in the form of a credit value adjustment (CVA) or a debt value adjustment (DVA). In the event of netting agreements, CVAs and DVAs are calculated on the basis of the net position for each counterparty including collateral, probabilities of default and credit default swap spreads (CDS spreads) observable on the market. This is an accounting-related change in estimate. The effect of the approach of credit risk for financial assets and derivatives amounts to TEUR 26,962 (2020: TEUR 25,996) and was recorded in the net result from financial instruments at fair value. The effect from the approach of credit risk for financial liabilities amounted to TEUR -5,505 (2020: TEUR -3,630) and was recorded in the result from change in own credit risk. The carrying amount of the assets underlying the judgements, assumptions and estimates amounts to TEUR 839,091 (2020: TEUR 936,107) and of the liabilities TEUR 562,758 (2020: TEUR 623,641).

Income taxes
With regard income taxes, the Group is subject to several tax authorities. Material estimates are used in the calculation of the tax provision in note (38). The taxable income for each company is calculated on the basis of the local commercial result by reconciling financial and tax accounting. In addition, expected additional tax obligations in connection with ongoing or announced tax audits are recognised in the tax provision. After a completed tax audit, the difference between the expected and the actual payment of back taxes is recognised through profit or loss in the income statement under income taxes from previous periods and deferred taxes. Judgements are required to determine the amount of deferred income tax assets to be recognised based on the probable timing and amount of future taxable income and future tax planning strategies. Income tax assets are recognised on the basis of budgetary accounting over a period of five years. Disclosures relating to deferred taxes are provided in notes (29) and (39). The effects on the income statement are shown in note (17) as well as those of the Other Result on note (41). The carrying amount of the assets underlying the judgements, assumptions and estimates amounts to TEUR 29,838 (2020: TEUR 30,751) and of the liabilities TEUR 7,577 (2020: TEUR 3,529).

Provisions
The amount recognised for provisions is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The estimate takes risks and uncertainties into account. The provisions recognised on the balance sheet are shown in note (37). The effects on the income statement relating to liabilities and credit risks are shown under loan loss provisions and impairment of financial assets in note (15) and in other cases under administrative expenses in note (13) and are recognised in other income and other expenses in notes (11) and (12). The carrying amount of the provisions – not including social capital – underlying the judgements, assumptions and estimates amounts to TEUR 46,478 (2020: TEUR 32,774).

Social capital
Provisions for pensions, former severance entitlements and anniversary bonuses relate to defined-benefit plans. The present values of social capital are calculated using the following actuarial assumptions:

- Provisions for defined-benefit obligations are recognised according to the accrued benefit method.
- The expected retirement age was calculated individually for each employee on the basis of the changes resolved in the 2003 Austrian Ancillary Budget Act with regard to raising the earliest possible Retirement age. The current regulation for incrementally raising the Retirement age to 65 for men and women was taken into account.
- Generation tables for employees: table values from "AVÖ 2008-P": Rechnungsgrundlagen für die Pensionsversicherung

Actuarial assumptions for the calculation of the present value of social capital	2021	2020
Interest rate/domestic	1.30 %	0.90 %
Annual indexing for pension provisions	2.20 %	2.20 %
Annual indexing (collective bargaining and performance based salary increases) for other provisions	2.00 %	2.10 %
Employee turnover rate for severance provisions	1.00 %	1.50 %
Employee turnover rate for other provisions	7.50 %	7.50 %
Individual career trend	2.00 %	1.90 %

The actuarial gains and losses from the adjustment of actuarial assumptions were recognised in other comprehensive income at TEUR 1,634 (2020: TEUR -1,769). The deferred taxes resulting from the recognition were also recognised directly in other comprehensive income at TEUR -408 (2020: TEUR 443). For 2022, pension payments of TEUR 342 (2021: TEUR 358), severance payments of TEUR 436 (2021: TEUR 596) and anniversary bonuses of TEUR 64 (2021: TEUR 67) are expected.

The amount of social capital provisions is based on actuarial calculations. The discount factor is a significant lever for the amount of social capital. A 0.5 % decline in the discount factor would increase staff costs by TEUR 1,377 (2020: TEUR 1,538), and a 0.5 % increase in the discount factor would reduce staff costs by TEUR 1,261 (2020: TEUR 1,405). A 0.5 % decline in the salary or pension trend would reduce staff costs by TEUR 1,230 (2020: TEUR 1,366), and a 0.5 % increase in the salary or pension trend would increase staff costs by TEUR 1,327 (2020: TEUR 1,477). A 0.5 % decline in employee turnover would increase staff costs by TEUR 97 (2020: TEUR 103), and a 0.5 % increase in employee turnover would reduce staff costs by TEUR 97 (2020: TEUR 103). The carrying amounts of social capital are shown in note (37). Effects on the income statement are reported under administrative expenses in note (13) and under other income in note (41). The carrying amount of the social capital underlying the judgements, assumptions and estimates amounts to TEUR 25,683 (2020: TEUR 28,040).

Leases
From the perspective of the lessor, judgements are required in particular to distinguish between finance leases and operating leases depending on the transfer of substantially all risks and rewards from the lessor to the lessee. The carrying amount of the finance leases underlying the judgements, assumptions and estimates amounts to TEUR 1,050,749 (2020: TEUR 1,096,257), while that of the operating leases amounts to TEUR 9,418 (2020: 10,214).

u) Benefits from public authorities
Government grants and grants from non-governmental organisations are recognised at fair value if it can be assumed with reasonable assurance that the grant will be awarded and the Group will fulfil the associated conditions. The grants were deducted when determining the carrying amount of the asset. The company did not directly benefit from any other form of government assistance. Likewise, there are no unfulfilled conditions or other contingencies attaching to government assistance.

(4) APPLICATION OF REVISED AND NEW IFRS AND IAS

IFRS rules with mandatory application as of the reporting date were applied to the consolidated financial statements.

a) First-time application of new and revised standards and interpretations

The International Accounting Standards Board (IASB) has made a number of changes to existing standards and issued new standards and interpretations, application of which is mandatory for 2021. These rules must also be observed in the EU and concern the following areas:

Amendments to IFRS 9 and IAS 39 – Interest Rate Benchmark Reform, Phase 2

In 2021, the Bank applied amendments to IFRS 9 and IAS 39 in line with Phase 2 of the IASB project on the reform of the Interbank Offered Rate (IBOR) to its financial reporting.

The amendments relate to the replacement of existing reference interest rates with new reference interest rates and cover aspects that could influence financial reporting. They include modifications of financial assets and financial liabilities, off-balance sheet transactions (e.g. credit commitments) and requirements for the recognition of derivative hedging instruments. The amendments introduce a practical expedient for modifications required by the IBOR reform. The modifications are accounted for by adjusting the effective interest rate, otherwise on the basis of the current IFRS requirements. The recognition of derivative hedging instruments is not discontinued automatically as a result of the IBOR reform. Derivative hedging instruments and their documentation must be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. The amendments also require disclosures that outline both the nature and extent of risks arising from the IBOR reform and the management and its progress within the entity.

The development of the IBOR reform – in force since 1 January 2018 – and the associated risks are monitored closely in the Group. To this end, the Bank initiated an entity-wide project to manage the transition to the new risk-free reference interest rates. The project was implemented jointly by the Treasury, Legal, Control-ling, Sales, Product Management, Group Accounting, and IT departments and in cooperation with the data centre. The current focus is on the replacement of the remaining reference interest rates.

In the IBOR reform, existing reference interest rates are replaced by alternative, risk-free interest rates. Some reforms are already in effect, while others are under review or yet to be implemented. The CHF LIBOR was replaced by the SARON ("Swiss Average Rate Overnight"). The SARON is a secured overnight rate that is set on the basis of actual transactions. Instead of a forward rate, this interest rate results from the individual overnight rates and there-fore is not known until the end of the period. By contrast, the CHF LIBOR is an interest rate that relates to a future period and is published for a certain term at the start of the respective period. The new reference interest rates will therefore – based on the SARON – include premiums for maturities, credit risks and other differences in order to ensure economic equivalence. In the EUR area, the EURIBOR has already been reformed and remains avail-able. In addition, the EONIA ("Euro Overnight Index Average") has been replaced by the ESTR ("EURO Short Term Rate"). For existing contractual relationships, this means that the collateralisation annexes to the framework agreements need to be modified on a bilateral basis and corresponding equalisation payments must be made. In 2021, these payments amounted to TEUR 59. The USD LIBOR and the GBP-LIBOR will be replaced by the SOFR ("Secured Overnight Financing Rate") and the SONIA ("Sterling Overnight Index Average"), respectively. Both EONIA and most LIBOR interest rates are no longer available from 1 January 2022. In the case of the USD LIBOR, most of the interest rates are expected to remain available until 30 June 2023.

Hypo Bank has IBOR-related positions, especially in bonds and own issues as well as in derivative hedging instruments, which the Bank enters into to form markets for customers and hedge risks. In connection with the transition to the risk-free reference interest rates, necessary adjustments were made to systems, processes, contracts and documentation. The most significant risks in this context include market risks as well as legal and operational risks, relating for example to the renegotiation of loan agreements and adjustment of loan conditions.

The table below shows the carrying amounts and nominal values of the Bank's financial instruments and off-balance sheet liabilities or credit commitments as of 31 December 2021 by currency, the contracts for which still need to converted to the new reference interest rate. Despite the Bank's significant IBOR positions, the implementation of the changes arising from the IBOR reform has no significant effects in the Group.

TEUR	Book value		Nominal value	
31.12.2021	Finance. Assets values	Finance. Liabilities	Off balance sheet. Liabilities	Derivative hedging instruments
CHF-LIBOR	0	0	6,739	45,302
USD-LIBOR	42,310	4,419	7,484	46,177
GBP-LIBOR	0	0	0	29,891
JPY-LIBOR	0	0	0	3,835
EUR-LIBOR	0	23,088	0	0
Total	**42,310**	**27,507**	**14,223**	**125,205**

Amendments to IFRS 16 – COVID-19-Related Rent Concessions (In force from 1 June 2020)
On 12 October 2020, the IASB pronouncement "COVID-19-Related Rent Concessions" from 28 May 2020 was endorsed by the EU for use in Europe. This regulation makes it easier to account for concessions such as deferrals of rent instalments or rent reductions that are directly connected to the outbreak of the coronavirus pandemic. Under certain conditions, the lessee has the option not to account for rent concessions as lease modifications, meaning that effects of a rent reduction can be recognised through profit or loss in the months affected. Lessors do not gain any relief from the current amendment to IFRS 16. In March 2021, the IASB extended the validity of the option for rent concessions that reduce rent instalments due up until 30 June 2022 (originally 30 June 2022); the EU endorsed the amendment in April 2021. This amendment had no material effects on the consolidated financial statements.

b) New standards and interpretations not yet applied (Already endorsed by the EU)
The IASB has issued further standards and revisions of standards that are not mandatory for the 2021 financial year. According to current estimates, the application of the following standards and interpretations is not expected to have a material impact on the consolidated financial statements (unless otherwise stated). Hypo Vorarlberg chooses not to apply them early.

Amendments to IAS 16 – Proceeds before Intended Use (In force from 1 January 2022)
The IASB issued the amendments to IAS 16 in May 2020, and they were endorsed by the EU on 28 June 2021. The amendment stipulates that proceeds before intended use must be recognised as operating income and may not be deducted from the costs of an item of property, plant and equipment.

Amendments to IAS 37 – Recognition of costs (In force from 1 January 2022)
The EU endorsed the IASB's amendments to IAS 37 on 28 June 2021. These stipulate that the cost of fulfilling a contract comprises the costs that relate directly to the contract..

Amendments to IFRS 3 – Recognition of contingent assets (In force from 1 January 2022)
In addition to updating outdated references, the IASB added an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination. Early application is permitted only if the entity also applies all other updated references at the same time or earlier.

Annual Improvements to IFRSs – 2018–2020 Cycle (In force from 1 January 2022)
Improvements to IFRS 1, IFRS 9, IFRS 16 and IAS 41 in the form of clarifications, minor expedients and editorial corrections.

Publication of IFRS 17 – Insurance Contracts (In force from 1 January 2023)
In May 2017, the IASB published IFRS 17, which governs the accounting for assets and liabilities arising from insurance contracts. With the entry into force of the standard, the previous standard IFRS 4 "Insurance Contracts" will be replaced. The EU endorsement took place on 23 November 2021.

Amendments to IAS 1 – Classification of Liabilities (In force from 1 January 2023)
In 2020, the IASB issued amendments regarding the classification of liabilities. They clarify that the classification as current or non-current is based on rights in existence at the end of the reporting period. The EU endorsed the amendments on 3 March 2022.

Amendments to IAS 1 – Disclosure of Accounting Policies (In force from 1 January 2023)
In February 2021, the IASB hat issued amendments stipulating that, in the future, only the material information regarding accounting policies must be disclosed in the notes instead of the significant information. The EU endorsed the amendments on 3 March 2022.

Amendments to IAS 8 – Accounting Estimates (In force from 1 January 2023)
The IASB's amendments aim to help entities to distinguish be-tween accounting policies and accounting estimates. A change in an accounting policy to determine an accounting estimate (i.e. a monetary amount in financial statements that is subject to measurement uncertainty) that results from new information or new developments is a change of an accounting estimate and not the correction of an error. The EU endorsed the amendments on 3 March 2022.

c) New standards and interpretations not yet applied
(Not yet endorsed by the EU)
According to current estimates, the application of the following standards and interpretations is not expected to have a material impact on the consolidated financial statements (unless otherwise stated).

Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction
(in force from 1 January 2023)
In May 2021, the IASB issued amendments to IAS 12 that change the treatment of deferred tax related to assets and liabilities arising from a single transaction. They also introduce an exemption from the non-recognition of deferred tax assets and liabilities on initial recognition of an asset or liability ("initial recognition exemption").

(5) RESTATEMENT OF PREVIOUS YEAR'S FIGURES
In these consolidated financial statements, the previous year's segment reporting was restated (see explanations in section E. Segment reporting). The previous year's figure for expenses for other auditing services in note (68) Auditor's fee per Austrian Corporate Code (UGB) was also restated. In note (69) Disclosures on stock-exchange listing, we adjusted the division into listed and not listed for the debt securities at amortised cost item. The above points had no effect on the previous year's result.

B. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

(6) NET INTEREST INCOME

TEUR	2021	2020
Interest income from cash and balances with central banks	2	9
Interest income from financial assets at amortized cost	185,474	197,368
Interest income from liabilities	43,125	12,217
Interest and similar income according to effective interest method	228,601	209,594
Interest income from trading assets	2,948	5,572
Interest income from hedging instruments	44,241	40,163
Interest income from financial assets at fair value (non-SPPI)	13,676	13,315
Interest income from financial assets at fair value (option)	1,935	1,936
Interest and similar income other	62,800	60,986
Interest expenses financial liabilities at amortized cost	-50,759	-54,794
Interest expenses other financial liabilities	-32	-30
Interest expenses assets	-7,830	-6,629
Interest and similar expenses according to effective interest method	-58,621	-61,453
Interest expenses trading liabilities	-2,083	-1,488
Interest expenses hedging instruments	-31,961	-29,208
Interest expenses financial liabilities at fair value (option)	-2,675	-4,271
Interest and similar expenses other	-36,719	-34,967
Net interest income	196,061	174,160

Interest income from leasing business amounts to TEUR 18,963 (2020: TEUR 21,751).

(7) DIVIDEND INCOME

TEUR	2021	2020
Trading assets	0	2
Financial assets at fair value (non-SPPI)	597	489
Subsidiaries	197	197
Dividend income	794	688

(8) NET FEE AND COMMISSION INCOME

TEUR	2021	2020
Fee and commission income from financing	7,154	6,454
Fee and commission income from securities	23,315	17,978
Fee and commission income from account management/payment transactions	13,728	13,532
Other fee and commission income	2,938	3,778
Fee and commission income	47,135	41,742

TEUR	2021	2020
Fee and commission expenses from financing	-4,736	-3,109
Fee and commission expenses from securities	-2,607	-2,302
Fee and commission expenses from account management/payment transactions	-1,553	-1,372
Other fee and commission expenses	-216	-312
Fee and commission expenses	-9,112	-7,095

Fee and commission income from financial assets or liabilities not classified as at fair value through profit or loss amounts to TEUR 11,405 (2020: TEUR 10,594). Fee and commission expenses from financial assets or liabilities not classified as at fair value through profit or loss amounts to TEUR 35 (2020: TEUR 65). Fee and commission income from fiduciary activities amounts to TEUR 1,396 (2020: TEUR 1,373).

(9) NET RESULT FROM FINANCIAL INSTRUMENTS AT AMORTIZED COST

TEUR	2021	2020
Realised gains from financial assets at amortized cost	885	1,892
Write-ups of financial assets at amortized cost	15	0
Realised losses from financial liabilities at amortized cost	-254	-414
Impairment losses on financial assets at amortized cost	-92	-10
Realised gains from financial liabilities at amortized cost	1,471	99
Write-ups of financial liabilities at amortized cost	22	0
Realised losses from financial liabilities at amortized cost	-1,602	-49
Amortization of financial liabilities at amortized cost	-2	0
Net result from financial instruments at amortized cost	443	1,518

(10) NET RESULT FROM FINANCIAL INSTRUMENTS AT FAIR VALUE

Result from trading	2021	2020
Measurement of derivative financial instruments	4,844	1,104
Result from financial instruments at fair value (non-SPPI)	-9,051	-34,172
Result from financial instruments at fair value (option)	-18,343	9,860
Result from financial liabilities at fair value (option)	-14,618	-4,714
Result from hedging relationships	30,503	21,131
Net result from financial instruments at fair value	798	-1,443
Result from trading	-5,867	-8,234

The trading result includes translation differences from financial instruments at amortised cost, which are recognised through profit or loss, in the amount of TEUR 66,479 (2020: TEUR -27,487) and translation differences from instruments measured at fair value through profit or loss in the amount of TEUR -57,870 (2020: TEUR 28,584).

Net Result on hedge accounting

TEUR	2021	2020
Measurement of hedging instruments - for financial assets at amortized cost	97,511	29,619
Measurement of hedging instruments - for financial liabilities at amortized cost	-123,736	-43,962
Result from hedging instruments	-26,225	-14,343
Measurement of underlying transactions - for financial assets at amortized cost	-94,944	-32,901
Measurement of underlying transactions - for financial liabilities at amortized cost	121,967	45,801
Result from underlying transactions	27,023	12,900
Net result on hedge accounting	798	-1,443

For 24 hedging relationships (2020: one hedging relationship), the hedging transaction was terminated in 2021. Therefore, the basis adjustment on the hedged item in the amount of EUR 1,622 thousand (2020: EUR 1,558 thousand) is distributed over the remaining term and recognized in the result from hedging relationships.

(11) OTHER INCOME

TEUR	2021	2020
Income from operating leases	3,733	3,784
Other income from leasing business	1,386	1,110
Operating cost income	2,045	1,970
Income from the disposal of non-financial assets	4,028	3,086
Income from consultancy and other services	632	626
Income from consolidated subsidiaries and holdings	0	880
Miscellaneous other income	16,318	5,601
Other income	28,142	17,057

Income from operating leases constitutes rental income from let properties. The minimum lease income from non-terminable operating leases for future periods are shown in the table below.

The change in miscellaneous other income was due to revenue from leasing customers' hire purchases of TEUR 14,300 (2020: TEUR 2,162).

Minimum lease payments from operating leases

TEUR	2021	2020
Up to 1 year	3,423	3,580
1 to 2 years	2,825	2,985
2 to 3 years	2,621	2,738
3 to 4 years	1,433	1,405
4 to 5 years	1,168	1,286
More than 5 years	1,220	2,101
Minimum lease payments from operating leases (lessor)	12,690	14,095

(12) OTHER EXPENSES

TEUR	2021	2020
Other expenses from leasing business	-1,185	-1,170
Operating cost expenses	-2,393	-2,382
Expenses resulting from losses	-2,567	-2,237
Other tax expenses	-3,716	-3,457
Losses on the disposal of non-financial assets	-2,706	-818
Amounts from resolution and deposit protection funds	-12,364	-9,101
Miscellaneous other expenses	-17,087	-4,747
Other expenses	-42,018	-23,912

Other tax expenses include the stability levy in the amount of TEUR 2,676 (2020: TEUR 2,428).

The change in miscellaneous other expenses was the cost of sales for leasing customers' hire purchases of TEUR -14,300 (2020: TEUR -2,162).

(13) ADMINISTRATIVE EXPENSES

Group administrative expenses consist of staff costs and material expenses.

TEUR	2021	2020
Staff costs	-65,789	-64,100
Material expenses	-32,957	-31,012
Administrative expenses	-98,746	-95,112

Of which staff costs

TEUR	2021	2020
Wages and salaries	-49,672	-47,950
Statutory social security contributions	-12,757	-12,170
Voluntary social benefits	-698	-858
Expenses for retirement benefits	-2,109	-2,062
Expenses for social capital	483	-346
Compensations	-1,036	-714
Staff costs	-65,789	-64,100

Expenses for pensions include payments for defined contribution plans as part of an employee benefit fund and pension fund contributions of TEUR 1,712 (2020: TEUR 1,631).

Of which material expenses

TEUR	2021	2020
Building expenses	-3,787	-4,027
Leasing expenses	-86	-140
IT expenses	-14,104	-12,807
Advertising and PR expenses	-3,713	-3,406
Legal and advisory expenses	-2,641	-2,996
Communications expenses	-1,142	-1,067
Organisational form-related expenses	-2,683	-2,489
Staff development expenses	-1,183	-1,020
Other materials expenses	-3,618	-3,060
Material expenses	-32,957	-31,012

Minimum rental expenses of TEUR 1,502 (2021: TEUR 1,345) are expected for 2022 and TEUR 7,847 (2021: TEUR 6,893) for the next 5 years.

(14) DEPRECIATION AND AMORTIZATION

TEUR	2021	2020
Depreciation of property, plant and equipment	-3,913	-3,886
Impairments on investment property	-1,714	-1,759
Depreciation of intangible assets	-1,187	-1,240
Amortization of rights of use from leases	-1,314	-1,300
Depreciation and amortization	-8,128	-8,185

(15) LOAN LOSS PROVISIONS AND IMPAIRMENT OF FINANCIAL ASSETS

TEUR	2021	2020
Provision allocations for commitments/guarantees	-23,731	-14,346
Reversals from provisions for commitments/guarantees	12,010	1,948
Allocations to other provisions in lending business	-868	-931
Reversals from other provisions in lending business	873	251
Provisions for financial assets	**-11,716**	**-13,078**
Allocation of impairment losses for financial assets at amortized cost	-35,914	-49,701
Reversal of impairment losses for financial assets at amortized cost	35,296	21,954
Direct write-downs on receivables	-3,759	-2,082
Recoveries on loans previously written-down	797	1,464
Impairment of financial assets	**-3,580**	**-28,365**
Loan loss provisions and impairment of financial assets	**-15,296**	**-41,443**

In 2021 the loss from the direct write-down and the utilisation of recognised loan loss provisions was TEUR 11,073 (2020: TEUR 11,07).

(16) IMPAIRMENT OF NON-FINANCIAL ASSETS

TEUR	2021	2020
Recognition of impairment of investment property	0	-404
Impairment investment property	**0**	**-404**
Recognition of impairment of other assets	-259	-2,404
Impairment of other assets	**-259**	**-2,404**
Impairment of non-financial assets	**-259**	**-2,808**

(17) TAXES ON INCOME

TEUR	2021	2020
Current income taxes	-22,725	-15,843
Deferred income taxes	-981	4,448
Income taxes from previous periods	-3,162	-99
Taxes on income	**-26,868**	**-11,494**

Reconciliation of the tax rate (25 %) with taxes on income

TEUR	2021	2020
Earnings before taxes	93,678	48,825
Applicable tax rate	25 %	25 %
Income tax computed	**-23,419**	**-12,206**
Tax effects		
from tax-exempt investment income	255	900
from other tax-exempt income	9	4
from previous years and tax rate changes	-2,857	306
from differing international tax rates	773	166
Impairment losses on loss carryforwards and carried forward and temporary differences	-57	0
from other non-deductible expenses	-1,483	-453
from other differences	-89	-211
Taxes on income	**-26,868**	**-11,494**

The change in social capital from defined benefit plans, which was recognised through other comprehensive income in the reporting year amounts to TEUR 1,634 (2020: TEUR -1,769). The related deferred taxes amount to TEUR -408 (2020: TEUR 443).

The recording of the change in own credit risk outside profit or loss in 2021 in the amount of TEUR -2,742 (2020: TEUR -1,357) resulted in deferred tax of TEUR 685 (2020: TEUR 340).

C. NOTES TO THE BALANCE SHEET

(18) CASH AND BALANCES

TEUR	31.12.2021	31.12.2020
Cash on hand	22,599	23,155
Balances with central banks	1,741,265	1,283,491
Sight deposits with banks	42,692	31,976
Cash and balances with central banks	1,806,556	1,338,622

Balances with central banks include the minimum reserve in the amount of TEUR 43,383 (2020: TEUR 46,615) according to the ECB regulation. According to the OeNB's definition, the minimum reserve represents a working balance for ongoing payment transactions. For this reason, the minimum reserve meets the definition of cash and cash equivalents and is therefore reported under cash and balances with central banks.

(19) TRADING ASSETS

TEUR	31.12.2021	31.12.2020
Equity instruments	160	136
Derivatives with positive market values	86,450	122,400
Trading assets	86,610	122,536

Trading assets by region

TEUR	31.12.2021	31.12.2020
Austria	11,145	17,868
Germany	31,844	48,633
Switzerland and Liechtenstein	19	307
Other foreign countries	43,602	55,728
Trading assets	86,610	122,536

Nominal and market values from derivatives – breakdown by type of business

	Nominal values		Positive market values		Negative market values	
TEUR	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Interest rate swaps	1,675,986	2,000,732	78,103	110,060	66,136	92,411
Cross currency swaps	540,113	556,473	503	6,875	34,164	20,048
Interest rate options	121,944	104,258	3,714	1,078	383	707
Interest rate derivatives	2,338,043	2,661,463	82,320	118,013	100,683	113,166
FX forward transactions	518,374	489,782	3,981	4,083	4,751	3,693
FX swaps	77,005	45,928	115	111	231	298
FX options	17,110	15,577	34	193	34	196
Currency derivatives	612,489	551,287	4,130	4,387	5,016	4,187
Derivatives	2,950,532	3,212,750	86,450	122,400	105,699	117,353

The market values shown include the interest accrued.

(20) FINANCIAL ASSETS – AT FAIR VALUE (NON-SPPI)

TEUR	31.12.2021	31.12.2020
Equity instruments	12,729	23,897
Debt securities of public issuers	35,124	35,706
Debt securities of other issuers	156,110	131,644
Loans and advances to customers	498,288	559,652
Financial assets at fair value (non-SPPI)	702,251	750,899

Financial assets at fair value (non-SPPI) by product

TEUR	31.12.2021	31.12.2020
Shares	10,455	10,483
Investment certificates	1,960	3,307
Other equity interests	314	10,107
Total equity instruments	12,729	23,897
Debt securities of public issuers	35,124	35,706
Debt securities of other issuers	156,110	131,644
Total debt securities	191,234	167,350
Overdraft lines	73,750	79,575
Long-term loans	424,538	480,077
Total loans and credits	498,288	559,652
Financial assets at fair value (non-SPPI)	702,251	750,899

Financial assets at fair value (non-SPPI) by region

TEUR	31.12.2021	31.12.2020
Austria	491,408	554,861
Germany	72,952	79,084
Italy	3,961	0
Other foreign countries	133,930	116,954
Financial assets at fair value (non-SPPI)	702,251	750,899

Financial assets at fair value (non-SPPI) by business segment

TEUR	31.12.2021	31.12.2020
Corporate customers	495,809	557,020
Private customers	2,480	2,632
Financial markets	174,412	161,894
Corporate Center	29,550	29,353
Financial assets at fair value (non-SPPI)	702,251	750,899

Financial assets at fair value (non-SPPI) by sector

TEUR	31.12.2021	31.12.2020
Public sector	35,142	35,733
Financial institutions	136,190	122,294
Financial companies	21,529	20,921
Companies	508,153	570,487
Private households	1,237	1,464
Financial assets at fair value (non-SPPI)	702,251	750,899

Financial assets at fair value (non-SPPI) – company by branch

TEUR	31.12.2021	31.12.2020
Agriculture and forestry	88	114
Manufactoring	129,953	76,328
Construction industry	0	23
Trading	109	109
Transportation and storage	2,954	3,027
Accommodation and food service activities	12	12
Information and communication	12,367	16,985
Financial services	299,333	386,786
Housing	63,242	87,008
Public administration	1	1
Education	9	9
Other services	85	85
Financial assets at fair value (non-SPPI) – companies	508,153	570,487

Financial assets at fair value (non-SPPI) – disclosures on changes in fair value

TEUR	31.12.2021	31.12.2020
Credit exposure	702,251	750,899
Collateral	403,430	482,239
Total change in market value	19,232	33,302
of which due to market risk	-8,426	8,150
of which due to credit risk	27,658	25,152
Change in market value in the reporting period	-14,070	4,427
of which due to market risk	-16,576	6,154
of which due to credit risk	2,506	-1,727

Four years ago, the bondholders of HETA ASSET RESOLUTION AG (HETA), the restructuring unit of the former Hypo Alpe-Adria-Bank International AG, agreed by a large majority to cede their papers, renouncing part of their claims to the province of Carinthia. In the course of accepting the exchange offer of the Kärntner Ausgleichszahlungs-Fonds, Hypo Vorarlberg has acquired a “letter of assurance”, which is reflected in the so called “contingent additional purchase price”. If the proceeds from realisation from HETA exceed the expected recovery value (plus premium) of the respective instrument, the selling investors receive a subsequent payment. The value of the conditional additional purchase price adjustment as at the reporting date is 7.22 % and thus TEUR 7,783. By a ruling dated 29 December 2021, the resolution authority FMA determined the termination of HETA’s operations. The latter thus went into liquidation under stock corporation law.

Based on knowledge of isolated transactions and current price indications from other banks, Hypo Vorarlberg has recognised the "contingent additional purchase price" as a financial instrument in accordance with IAS 32.11 with a fair value of TEUR 7,858 (2020: TEUR 7,635) and allocated it to Level 2. The change in fair value is recognised in profit or loss in the item result from financial instruments at fair value under note (10) in the income statement.

(21) FINANCIAL ASSETS – AT FAIR VALUE (OPTION)

TEUR	31.12.2021	31.12.2020
Debt securities of public issuers	59,972	59,554
Loans and advances to customers	241,606	274,303
Financial assets at fair value (option)	301,578	333,857

Financial assets at fair value (option) by product

TEUR	31.12.2021	31.12.2020
Debt securities by public issuers	59,972	59,554
Total debt securities	59,972	59,554
Long-term loans	241,606	274,303
Total loans and advances	241,606	274,303
Financial assets at fair value (option)	301,578	333,857

Financial assets at fair value (option) by region

TEUR	31.12.2021	31.12.2020
Austria	273,238	304,222
Switzerland and Liechtenstein	5,122	5,038
Other foreign countries	23,218	24,597
Financial assets at fair value (option)	301,578	333,857

Financial assets at fair value (option) by business segment

TEUR	31.12.2021	31.12.2020
Corporate customers	194,803	220,304
Private customers	4,353	4,877
Financial markets	88,791	94,455
Corporate Center	13,631	14,221
Financial assets at fair value (option)	301,578	333,857

Financial assets at fair value (option) by sector

TEUR	31.12.2021	31.12.2020
Public sector	279,670	312,858
Financial companies	1,470	1,835
Companies	20,438	19,164
Financial assets at fair value (option)	301,578	333,857

Financial assets at fair value (option) – company by branch

TEUR	31.12.2021	31.12.2020
Financial Services	12,161	0
Housing	6,729	4,877
Liberal professionals	0	12,386
Administrative and support service activities	1,548	1,901
Financial assets at fair value (option) - companies	20,438	19,164

Financial assets at fair value (option) – disclosures on changes in fair value

TEUR	31.12.2021	31.12.2020
Credit exposure	301,578	333,857
Collateral	294,685	326,657
Total change in market value	44,536	58,580
of which due to market risk	42,680	55,796
of which due to credit risk	1,856	2,784
Change in market value in the reporting period	-14,044	-3,138
of which due to market risk	-13,116	28
of which due to credit risk	-928	-3,166

(22) FINANCIAL ASSETS AT FAIR VALUE (OCI)

As at 31 December 2021 and in the previous year, there were no financial assets at fair value (OCI).

(23) FINANCIAL ASSETS AT AMORTIZED COST

TEUR	31.12.2021	31.12.2020
Debt securities of public issuers	676,132	679,583
Debt securities of other issuers	1,762,670	1,921,517
Loans and advances to financial institutions	314,992	227,271
Loans and advances to customers	9,743,593	9,623,819
Trade receivables	8,944	756
Gross exposure value	12,506,331	12,452,946
Valuation allowances for debt securities - stage 1	-318	-377
Valuation allowances for debt securities - stage 2	-898	-1,024
Valuation allowances for debt securities - stage 3	-1,020	-1,020
Valuation allowances for loans and advances to financial institutions - stage 1	-27	-16
Valuation allowances for loans and advances to financial institutions - stage 2	-1	-5
Valuation allowances for loans and advances to customers - stage 1	-14,828	-19,683
Valuation allowances for loans and advances to customers - stage 2	-27,085	-30,591
Valuation allowances for loans and advances to customers - stage 3	-70,273	-68,029
Valuation allowances	-1,580	-
Financial assets at amortized cost	-116,030	-120,745
Debt securities of public issuers	12,390,301	12,332,201

The reporting for POCI was changed in 2021. Previously, the values for POCI were included in Stages 1 to 3. From 2021, they will be reported in separate lines.

In Financial assets at amortized cost, the amortized cost of EUR 3,229,213 thousand (2020: EUR 2,872,318 thousand) was adjusted by the hedged fair value of EUR 63,982 thousand (2020: EUR 148,095 thousand) due to the application of hedge accounting.

Financial assets at amortized cost – by product

TEUR	31.12.2021	31.12.2020
Debt securities of public issuers	676,074	679,549
Debt securities of other issuers	1,760,492	1,919,130
Total debt securities	2,436,566	2,598,679
Interbank accounts	140,541	125,413
Money market investments	116,816	96,798
Overdraft lines	803,314	874,507
Cash advances	237,857	264,046
Acceptant credits	16,327	14,591
Long-term loans	7,587,553	7,261,130
Lease receivables	1,050,749	1,096,257
Trade receivables	578	780
Total loans and advances	9,953,735	9,733,522
Financial assets at amortized cost	12,390,301	12,332,201

Financial assets at amortized cost – by region

TEUR	31.12.2021	31.12.2020
Austria	7,262,538	7,136,993
Germany	1,575,024	1,506,417
Switzerland and Liechtenstein	1,046,729	977,401
Italy	837,367	878,225
Other foreign countries	1,668,643	1,833,165
Financial assets at amortized cost	12,390,301	12,332,201

Financial assets at amortized cost – by business segment

TEUR	31.12.2021	31.12.2020
Corporate customers	6,215,930	6,101,303
Private customers	2,285,084	2,145,002
Financial markets	2,826,864	2,982,778
Corporate Center	1,062,423	1,103,118
Financial assets at amortized cost	12,390,301	12,332,201

Financial assets at amortized cost – by sector

TEUR	31.12.2021	31.12.2020
Public sector	958,084	1,080,838
Financial institutions	1,913,961	1,965,985
Financial companies	301,309	278,248
Companies	6,638,207	6,599,607
Private households	2,578,740	2,407,523
Financial assets at amortized cost	12,390,301	12,332,201

Financial assets at amortized cost – company by branch

TEUR	31.12.2021	31.12.2020
Agriculture and forestry	30,598	34,298
Mining	15,453	21,885
Manufacturing	716,896	720,816
Energy supply	107,118	125,102
Water supply	38,564	42,178
Construction industry	744,259	687,366
Trading	500,263	533,921
Transportation and storage	236,277	233,142
Accommodation and food service activities	452,397	430,984
Information and communication	67,015	61,921
Financial services	198,137	224,564
Housing	2,693,179	2,745,753
Liberal professionals	615,041	487,357
Administrative and support service activities	63,236	57,926
Public administration	37,324	58,231
Education	3,450	3,060
Human health and social work activities	28,386	50,911
Arts, entertainment and recreation activities	15,670	23,428
Other services	74,944	56,764
Financial assets at amortized cost – companies	**6,638,207**	**6,599,607**

Gross and net investment in leases

The Group mainly leases real estate and to a lesser extent movables under finance leases. For the receivables from finance leases included in this item, gross investment is reconciled with the present value of the minimum lease payments as follows.

TEUR	31.12.2021	31.12.2020
Minimum lease payments	1,179,184	1,234,178
Non-guaranteed residual values	0	0
Gross total investment	**1,179,184**	**1,234,178**
Unrealised financial income	-128,435	-137,921
Net investment	**1,050,749**	**1,096,257**
Present value of non-guaranteed residual values	0	0
Present value of minimum lease payments	**1,050,749**	**1,096,257**

The cumulative impairment loss on finance leases amounts to TEUR 29,853 (2020: TEUR 33,572).

Leases – breakdown by maturity

TEUR	31.12.2021	31.12.2020
Up to 1 year	177,274	148,232
2 to 3 years	148,496	160,318
3 to 4 years	127,494	139,191
4 to 5 years	115,303	119,705
5 to 6 years	115,015	104,245
More than 5 years	495,602	562,487
Gross total investment	**1,179,184**	**1,234,178**
Up to 1 year	152,627	121,521
2 to 3 years	126,462	137,806
3 to 4 years	108,997	119,528
4 to 5 years	99,684	103,160
5 to 6 years	100,840	90,396
More than 5 years	462,139	523,846
Present value of minimum lease payments	**1,050,749**	**1,096,257**

(24) POSITIVE MARKET VALUES OF HEDGES

Breakdown by type of hedge

TEUR	31.12.2021	31.12.2020
Positive market value of fair value hedges	119,578	191,377
Positive market values of hedges	**119,578**	**191,377**

Nominal and market values from fair value hedges – breakdown by type of business

TEUR	Nominal values		Positive values		Negative values	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Interest rate swaps	7,864,828	7,052,222	119,114	190,207	105,579	135,450
Cross currency swaps	188,580	223,982	464	1,170	31,626	28,425
Interes rate derivatives	**8,053,408**	**7,276,204**	**119,578**	**191,377**	**137,205**	**163,875**
Derivatives	**8,053,408**	**7,276,204**	**119,578**	**191,377**	**137,205**	**163,875**

The market values shown include the interest accrued. The Group did not enter into any cash flow hedge positions in the reporting year or the previous year.

(25) SHARES IN COMPANIES VALUED AT EQUITY

Development of carrying values of equity investments

TEUR	2021	2020
Carrying value of holding 1 January	3,325	1,806
Attributable profit/loss	529	449
Changes in the scope of consolidation	-14	1.320
Changes of capital	0	20
Dividends	-318	-270
Carrying value of holding 31 December	3,522	3,325

The difference between the carrying amount of investments and the pro rata equity of associates included in the consolidated financial statements using the equity method is TEUR 2,109 (2020: TEUR 1,854). This difference was added to the value of the investments and to retained earnings. The gains and losses from these companies were recognised only on a pro rata basis through profit or loss in the income statement under the result from equity consolidation. In 2021, these gains and losses amounted to TEUR 529 (2020: TEUR 449).

Further information on equity investments and companies measured at equity is provided under Part VII.

(26) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment – breakdown by type

TEUR	31.12.2021	31.12.2020
Properties	10,809	10,725
Buildings	52,794	54,528
Operational and office equipment	4,954	5,307
Other Property, plant and equipment	1,397	1,531
Rights of use from leases	9,418	10,214
Property, plant and equipment	79,372	82,305

The gross carrying amount of fully depreciated property, plant and equipment that is still in use is TEUR 15,631 (2020: TEUR 14,204). The development of property, plant and equipment is shown in note (32).

Reconciliation of rights of use from leases by category

TEUR 2020	Opening Balance	Addition	Disposal	Revaluation	Depreciation / Amortization	Closing balance
Real estate	10,303	0	0	662	-1,223	9,742
Parking spaces	290	0	-12	101	-38	341
Motor vehicles	80	101	-10	-1	-39	131
Rights of use from leases	10,673	101	-22	762	-1,300	10,214

TEUR 2021	Opening Balance	Addition	Disposal	Revaluation	Depreciation / Amortization	Closing balance
Real estate	9,742	236	-54	328	-1,236	9,016
Parking spaces	341	0	0	8	-35	314
Motor vehicles	131	0	0	0	-43	88
Rights of use from leases	10,214	236	-54	336	-1,314	9,418

Amortization of the right of use is recognised in the "Depreciation and amortization" item in note (14). Lease liabilities pursuant to IFRS 16 are reported in the "Financial liabilities at amortized cost" item of the balance sheet in note (35), while interest expenses relating to the lease liabilities are recognised in the "Net interest income" item in note (6).

(27) INVESTMENT PROPERTY

TEUR	31.12.2021	31.12.2020
Properties	11,426	12,858
Buildings	35,343	39,271
Assets in construction	40	0
Investment property	46,809	52,129

In 2021, the property portfolio comprised 60 properties (2020: 70) properties in Austria, Switzerland, Germany and Italy. The portfolio includes both residential properties with a carrying amount of TEUR 6,477 (2020: TEUR 7,466) and commercial properties with a carrying amount of TEUR 40,332 (2020: TEUR 44,661). The current market value of the property portfolio is TEUR 70,501 (2020: TEUR 74,591).

The properties are valued according to the key parameters shown below on the basis of internal appraisals. They therefore correspond to Level 3 in the fair value hierarchy.

Key parameters for real estate appraisal	2021	2020
Return in %	0.50 - 9.00	0.75 - 9.00
Inflation rate in %	0.50 - 3.00	0.50 - 2.00
Rental loss risk in %	1.50 - 8.00	1.50 - 8.00

There are no material restrictions on the disposal of these assets. Likewise, there are no contractual obligations to purchase, build or develop such properties. The development of investment property is shown in note (32). The rental payments reported for investment property are shown under other income in note (11).

(28) INTANGIBLE ASSETS

Intangible assets – breakdown by type

TEUR	31.12.2021	31.12.2020
Software acquired	1,084	1,626
Other intangible assets	114	217
Intangible assets	1,198	1,843

(29) DEFERRED INCOME TAX ASSETS

In the table below, the deferred income tax liabilities that on balance represent an asset in the respective tax entity are deducted from the income tax assets.

TEUR	31.12.2021	31.12.2020
Temporary differences from the measurement of financial instruments via the statement of comprehensive income	4,399	2,151
Temporary differences from writing-down assets	583	731
Temporary differences from provisions	1,851	423
Temporary differences from social capital	5,270	5,719
Temporary differences from impairments	5,830	8,293
Other temporary differences	519	1,238
Deferred income tax assets	18,452	18,555
Set-off of deferred taxes	-3,802	-3,236
Net deferred income tax assets	14,650	15,319

There are tax loss carry forwards of TEUR 10,265 (2020: TEUR 10,942), that can be carried forward indefinitely, but are not yet capitalised in the Group, as it is unlikely that taxable profits will be available. A breakdown of total deferred income tax assets by maturity is shown in note (43).

(30) NON-CURRENT ASSETS AVAILABLE FOR SALE

There were no non-current assets held for sale as of December 31, 2021 or in the previous year.

(31) OTHER ASSETS

TEUR	31.12.2021	31.12.2020
Accruals	415	295
Other tax assets	4,938	3,688
Other properties	27,784	29,799
Other assets	24,395	22,173
Other assets	57,532	55,955

Prepaid expenses and any assets not attributable to one of the other asset items are reported under other assets. This item also includes properties that are not property, plant and equipment according to IAS 16, investment property according to IAS 40, or non-current assets available for sale according to IFRS 5. These properties are closely associated with the realisation of collateral from the lending business. Other assets include accruals of income that the Group has not yet received. These include the accrual from asset management.

The breakdown by maturity is shown in note (43). Impairments on other properties are recognised under non-financial assets in note (16) and amounted to TEUR 259 in 2021 (2020: TEUR 2,404).

(32) STATEMENT OF CHANGES IN ASSETS

TEUR 2020	Acquisition Cost	Currency translation	Acquisitions	Additions	Disposals	Reclassifi-cations and other	Acquisition cost 31.12.	Carrying amounts 31.12.
Software acquired	10,693	0	-7	381	-102	6	10,971	1,626
Other intangible assets	598	2	0	0	0	0	600	217
Intangible assets	**11,291**	**2**	**-7**	**381**	**-102**	**6**	**11,571**	**1,843**
Owner-occupied land and buildings	105,369	10	-22	759	-583	-196	105,337	65,253
Operational and office equipment	16,359	0	-122	1,935	-508	23	17,687	5,307
Other property, plant and equipment	14,016	0	0	748	-7	-39	14,718	11,745
Property, plant and equipment	**135,744**	**10**	**-144**	**3,442**	**-1,098**	**-212**	**137,742**	**82,305**
Investment property	88,930	0	0	195	-5,246	4,678	88,557	52,129
Other property	58,710	0	0	1,237	-4,580	-5,341	50,026	29,799
Total	**294,675**	**12**	**-151**	**5,255**	**-11,026**	**-869**	**287,896**	**166,076**

TEUR 2020	Cumulative Depreciation/ amortization 01.01.	Currency translation	Acquisitions	Regular Amorti-zation	Disposals	Reclassifi-cations and other	Impair-ments	Cumulative Depreciiation amortization 31.12.
Software acquired	-8,222	0	7	-1,130	0	0	0	-9,345
Other intangible assets	-273	0	0	-110	0	0	0	-383
Intangible assets	**-8,495**	**0**	**7**	**-1,240**	**0**	**0**	**0**	**-9,728**
Owner-occupied land and buildings	-38,615	-8	23	-2,285	583	218	0	-40,084
Operational and office equipment	-11,359	0	86	-1,540	433	0	0	-12,380
Other property, plant and equipment	-1,643	0	0	-1,361	31	0	0	-2,973
Property, plant and equipment	**-51,617**	**-8**	**109**	**-5,186**	**1,047**	**218**	**0**	**-55,437**
Investment property	-34,152	0	0	-1,759	1,553	-1,666	-404	-36,428
Other property	-21,426	0	0	0	1,474	2,129	-2,404	-20,227
Total	**-115,690**	**-8**	**116**	**-8,185**	**4,074**	**681**	**-2,808**	**-121,820**

The right of use from leases is included in “Other property, plant and equipment”. Other properties are included in the “Other assets” item in note (31).

TEUR 2021	Acquisition Cost 01.01.	Currency translation	Acquisitions	Additions	Disposals	Reclassifi-cations and other	Acquisition cost 31.12.	Carrying amounts 31.12
Software acquired	10,971	0	0	537	15	0	11,523	1,084
Other intangible assets	600	25	0	0	-6	0	619	114
Intangible assets	11,571	25	0	537	9	0	12,142	1,198
Owner-occupied land and buildings	105,337	107	0	313	0	299	106,056	63,603
Operational and office equipment	17,687	11	0	1,445	-1,911	-37	17,195	4,954
Other property, plant and equipment	14,718	0	0	241	-106	308	15,161	10,815
Property, plant and equipment	137,742	118	0	1,999	-2,017	570	138,412	79,372
Investment property	88,557	0	0	322	-4,606	-997	83,276	46,809
Other property	50,026	0	0	46	-2,553	-1,576	45,943	27,784
Total	287,896	143	0	2,904	-9,167	-2,003	279,773	155,163

TEUR 2021	Cumulative Depreciation/ amortization 01.01.	Currency translation	Acquisitions	Regular Amortiza-tion	Disposals	Reclassifi-cations and other	Impair-ments	Cumulative Depreci-iation amortiza-tion 31.12.
Software acquired	-9,345	0	0	-1,079	-15	0	0	-10,439
Other intangible assets	-383	-20	0	-108	6	0	0	-505
Intangible assets	-9,728	-20	0	-1,187	-9	0	0	-10,944
Owner-occupied land and buildings	-40,084	-100	0	-2,239	0	-30	0	-42,453
Operational and office equipment	-12,380	-5	0	-1,613	1,723	34	0	-12,241
Other property, plant and equipment	-2,973	0	0	-1,375	2	0	0	-4,346
Property, plant and equipment	-55,437	-105	0	-5,227	1,725	4	0	-59,040
Investment property	-36,428	0	0	-1,714	1,499	176	0	-36,467
Other property	-20,227	0	0	0	1,565	762	-259	-18,159
Total	-121,820	-125	0	-8,128	4,780	942	-259	-124,610

The right of use from leases is included in "Other property, plant and equipment". Other properties are included in the "Other assets" item in note (31).

(33) TRADING LIABILITIES

Trading liabilities and derivatives – breakdown by type of business

TEUR	31.12.2021	31.12.2020
Derivatives with negative market values	105,699	117,353
Trading liabilities	105,699	117,353

The nominal values and the negative market values of the derivative financial instruments are shown in note (19).

(34) FINANCIAL LIABILITIES AT FAIR VALUE (OPTION)

TEUR	31.12.2021	31.12.2020
Liabilities to financial institutions	0	2,050
Time deposits customers	134,991	138,230
Debt securities issued	536,752	663,319
Financial liabilities at fair value (option)	671,743	803,599

Financial liabilities at fair value (option) by product

TEUR	31.12.2021	31.12.2020
Mortgage bonds	23,541	24,714
Municipal bonds	236,318	307,355
Bonds	85,701	100,234
Housing construction bonds	166,894	207,376
Supplementary capital	24,298	23,640
Total debt securities issued	**536,752**	**663,319**
Money market borrowing	0	2,050
Promissory note loans	134,991	138,230
Total deposits	**134,991**	**140,280**
Financial liabilities at fair value (option)	**671,743**	**803,599**

Financial liabilities at fair value (option) by region

TEUR	31.12.2021	31.12.2020
Austria	533,659	660,144
Germany	138,084	143,455
Financial liabilities at fair value (option)	**671,743**	**803,599**

Financial liabilities at fair value (option) by segment

TEUR	31.12.2021	31.12.2020
Financial markets	670,087	779,959
Corporate Center	1,656	23,640
Financial liabilities at fair value (option)	**671,743**	**803,599**

Financial liabilities at fair value (option) by sector

Financial institutions	31.12.2021	31.12.2020
Financial companies	536,752	665,368
Financial liabilities at fair value (option)	134,991	138,231
Financial institutions	**671,743**	**803,599**

Disclosures on changes in fair value

TEUR	31.12.2021	31.12.2020
Carrying value	**671,743**	**803,599**
Amount repayable	662,969	775,248
Difference between carrying value and amount repayable	8,774	28,351
Total change in market value	**61,906**	**89,220**
of which due to market risk	54,520	84,548
of which due to credit risk	7,386	4,672
Change in market value in the reporting period	**-27,314**	**-17,361**
of which due to market risk	-30,028	-18,055
of which due to credit risk	2,714	694

In the calculation of the market value of “financial liabilities – LFVO”, the credit spread is derived from market data. When determining the change in fair value due to credit risk, there is a nuanced assessment of financial instruments with regard to currency, maturity, placement type and collateral/risk structure. The change in fair value due to credit risk is determined using a model in which the change in fair value due to market risk is deducted from the total change in fair value.

Notes on the change in supplementary capital (LFVO)

TEUR	2021	2020
LFVO supplementary capital - balance 1 January	**23,640**	**32,031**
New intake	0	316
Repayments	0	-8,537
Change in deferred interest	48	-137
Change from measurement	610	-33
LFVO supplementary capital - balance 31 December	**24,298**	**23,640**

(35) FINANCIAL LIABILITIES AT AMORTIZED COST

TEUR	31.12.2021	31.12.2020
Liabilities to financial institutions	3,030,584	2,842,204
Demand deposits from customers	4,043,134	4,280,780
Savings deposits from customers	1,221,066	1,209,573
Debt securities issued	4,985,203	4,523,179
Trade payables	9,392	8,012
Other liabilities	0	88
Liabilities from leases	9,544	10,288
Financial liabilities at amortized cost	**13,298,923**	**12,874,124**

In the financial liabilities at amortised cost, the amortised cost of TEUR 4,900,695 (2020: TEUR 4,609,744) was adjusted by the hedged fair value of TEUR 40,016 (2020: TEUR 165,630) due to the application of hedge accounting.

The item Liabilities to banks includes a volume of TEUR 2,800,000 (2020: TEUR 2,500,000), which is a financing transaction from the TLTRO III programme of the European Central Bank (ECB).

Based on an analysis of the conditions that the Bank can observe on the market for refinancing with comparable collateral, the Bank has come to the conclusion that the conditions of the TLTRO III programme do not offer any significant advantage for it in comparison to the market. The liabilities were therefore recognised as financial instruments in accordance with IFRS 9.

In 2020, the first tranche of the TLTRO III programme was drawn. This first tranche will last from 24 June 2020 until 28 June 2023. The interest rates for this financing transaction are variable and depend, on the one hand, on the achievement of credit growth within specified periods and, on the other hand, on adjustments by the European Central Bank. The terms of this financing provide for an interest rate for the first interest period from 24 June 2020 to 23 June 2021 that is derived from the ECB's main refinancing rate and includes a discount of 50 basis points. The main refinancing rate has been 0.00% since 2016, so the interest rate for the first interest period is -0.50 %. If required credit growth is achieved for the reference period from 1 March 2020 to 31 March 2021, the interest rate on the ECB's deposit facility may be added to this rate. The interest rate for the deposit facility is currently -0.50 %. If the required credit growth is achieved, this will subsequently result in an interest rate of -1.00 % for the first interest period. For the second interest period from 24 June 2021 to 23 June 2022, the interest rate will depend on the net credit growth of an additional reference period. This additional reference period begins on 1 October 2020 and ends on 31 December 2021. If the required net credit growth is also achieved here, the interest rate for the second interest period will be -1.00 %.

In 2021, a second tranche of TEUR 300,000 was drawn. This second tranche runs from 24 March 2021 until 28 March 2024. The interest rates for this financing transaction are variable, depending firstly on the achievement of credit growth within the specified periods and secondly on adjustments by the European Central Bank.

For the first interest period from 24 March 2020 to 23 June 2021, the conditions for this financing stipulate an interest rate that is based on the ECB's main refinancing operations rate and includes a discount of 50 basis points. The main refinancing operations rate has been 0.00 % since 2016, so the interest rate for the first interest period is -0.50 %. If the required credit growth is achieved for the reference period from 1 March 2020 to 31 March 2021, then the interest rate for the ECB's deposit facility can also be added to the interest rate. The interest rate for the deposit facility is currently -0.50 %. If the required credit growth is achieved, this there-fore subsequently results in an interest rate of -1.00 % for the first interest period. For the second interest period from 24 June 2021 to 23 June 2022, the interest rate depends on net credit growth in a further reference period. This additional reference period began on 1 October 2020 and will end on 31 December 2021. If the required net credit growth is achieved in this case, too, this results in an interest rate of -1.00 % for the second interest period.

The Bank has achieved the necessary net credit growth for both tranches. Due to the achievement of reference period 1 and the special reference period 1, a change in the estimate regarding the interest rate to be achieved for the two tranches was made after the first half of the year. The adjustment resulting from the change in estimate amounts to TEUR 27,569 and was recognised in net interest income under interest income from liabilities. For 2021, interest totalling TEUR 40,961 (2020: TEUR 6,597) was recognised from both tranches including modification effect.

Financial liabilities at amortized cost by product

TEUR	31.12.2021	31.12.2020
Mortgage bonds	2,713,741	2,239,424
Municipal bonds	42,217	45,342
Medium-term fixed-rate notes	0	188
Bonds	1,877,787	1,883,940
Supplementary capital (T2)	300,924	303,751
Additional core capital (AT1)	50,534	50,534
Total debt securities issued	**4,985,203**	**4,523,179**
Interbank accounts	116,910	179,251
Money market deposits	2,898,736	2,635,364
Demand deposits	3,419,355	3,584,832
Time deposits	439,945	461,410
Savings deposits	903,737	878,122
Capital savings accounts	317,329	331,451
Promissory note loans	198,772	262,127
Total deposits	**8,294,784**	**8,332,557**
Trade payables	9,392	8,012
Other financial liabilities	9,544	10,376
Total other financial liabilities	**18,936**	**18,388**
Financial liabilities at amortized cost	**13,298,923**	**12,874,124**

Financial liabilities at amortized cost by region

TEUR	31.12.2021	31.12.2020
Austria	11,018,538	10,323,181
Germany	819,762	852,910
Switzerland and Liechtenstein	1,171,844	1,164,408
Italy	8,649	167,145
Other foreign countries	280,130	366,480
Financial liabilities at amortized cost	**13,298,923**	**12,874,124**

Financial liabilities at amortized cost by business segment

TEUR	31.12.2021	31.12.2020
Corporate customers	2,010,028	1,881,007
Private customers	2,755,596	2,714,210
Financial markets	8,245,958	7,834,839
Corporate Center	287,341	444,068
Financial liabilities at amortized cost	**13,298,923**	**12,874,124**

Financial liabilities at amortized cost by sector

TEUR	31.12.2021	31.12.2020
Central banks	2,766,873	2,503,229
Public sector	314,447	273,015
Financial institutions	5,261,414	4,870,986
Financial companies	623,840	997,388
Companies	1,768,983	1,877,528
Private households	2,563,366	2,351,978
Financial liabilities at amortized cost	**13,298,923**	**12,874,124**

Financial liabilities at amortized cost – company by branch

TEUR	31.12.2021	31.12.2020
Agriculture and forestry	3,524	2,278
Mining	1,940	2,306
Manufacturing	258,857	327,998
Energy supply	23,368	78,285
Water supply	4,531	16,769
Construction industry	149,803	154,390
Trading	248,549	256,511
Transportation and storage	33,809	28,646
Accommodation and food service activities	48,884	37,389
Information and communication	50,089	47,094
Financial services	138,392	108,917
Housing	292,458	285,929
Liberal professionals	353,033	362,140
Administrative and support service activities	33,018	46,003
Public administration	24,793	16,843
Education	14,181	9,484
Human health and social work activities	57,199	66,203
Arts, entertainment and recreation activities	15,646	17,893
Other services	16,909	12,450
Financial liabilities at amortized cost - companies	**1,768,983**	**1,877,528**

Notes on the change in supplementary capital (LAC)

TEUR	2021	2020
LAC Tier 2 capital and additional Tier 1 capital - balance 1 January	**354,285**	**352,458**
New intake	5,135	606
Repayments	-76	-902
Change in deferred interest	9	1
Change from measurement	-7,895	2,122
LAC Tier 2 capital and additional Tier 1 capital - balance 31 December	**351,458**	**354,285**

Disclosures on lease liabilities by remaining term

TEUR	31.12.2021	31.12.2020
Up to 3 months	342	333
More than 3 months to 12 months	910	1,001
More than 1 year to 5 years	4,344	4,705
More than 5 years	4,418	5,698
Lease liabilities	**10,014**	**11,737**

The lease liabilities shown here by remaining term are the undiscounted lease payments. Therefore, the total payments do not correspond to the present value of the lease liabilities shown in the table above. The weighted average interest rate is 1,46 %. Expenses for short-term leases, low-value leases and variable lease payments that were not included in the measurement of the lease liability total TEUR 319 (2020: TEUR 316).

Change in lease liabilities

TEUR	2021	2020
Lease liabilities – balance as at 01.01.	**10,288**	**10,757**
Interest expense	150	84
Revaluation	560	758
Disposals due to reversals	-54	0
Lease payments	-1,400	-1,311
Lease liabilities – balance as at 31.12.	**9,544**	**10,288**

(36) NEGATIVE MARKET VALUES OF HEDGES

Breakdown by type of hedge

TEUR	31.12.2021	31.12.2020
Negative market value of fair value hedges	137,205	163,875
Negative market values of hedges	**137,205**	**163,875**

The nominal values and the negative market values of the hedging instruments are shown in note (24). The Group did not enter into any cash flow hedge positions in the reporting year or the previous year.

(37) PROVISIONS

Provisions by type

TEUR	31.12.2021	31.12.2020
Severance provisions	16,866	18,200
Pension provisions	5,436	6,537
Service anniversary provisions	3,381	3,303
Social capital	**25,683**	**28,040**
Provisions for guarantees/liability agreements	28,088	16,378
Provisions for credit risks	145	1,056
Provisions for ongoing litigation	1,128	781
Staff provisions	333	361
Provisions for other expenses	16,784	14,198
Other provisions	**46,478**	**32,774**
Provisions	**72,161**	**60,814**

A breakdown by maturity or the expected terms of resulting outflows is shown in note (43).

Although guarantees and warranties are not shown on the balance sheet, the credit risk they pose is not insubstantial. To account for this default risk, provisions are recognised for customers with certain credit rating deterioration. If a contingent liability from a guarantee or warranty takes effect, we have the right to recourse from the guarantee holder. The collateral provided by the guarantee holder is therefore considered when recognising the provision. Therefore, an inflow of economic benefits in excess of the collateral is not expected.

Credit risk provisions are also intended to cover credit risk from undrawn borrowing facilities. Loans granted to customers but not yet drawn represent contingent liabilities. As these are not shown on the balance sheet, a loan loss provision is possible under provisions only. As they are loan commitments according to IFRS 9, they do not come under the scope of IAS 37. These provisions are therefore determined in accordance with IFRS 9.

No specific assets or funding are in place for social capital, apart from the pension agreement for employees of the St. Gallen branch. For employees of the St. Gallen branch, the fund assets are invested by Swiss Life AG, Zürich, within the framework of the BVG collective foundation Swiss Life. The fund assets are professionally managed by Swiss Life AG and diversifying the risk is part of the investment strategy.

Employers and employees both pay their contributions into this fund. The fund assets and thus their measurement effects are therefore not included in these consolidated financial statements. Therefore, the provision recognises the net obligation from the present value of the defined benefit obligations less the fair value of the fund assets. Gains and losses from the allocation or reversal of provisions are shown directly in administrative expenses and other comprehensive income. For pension provisions, we are required in Austria by law to hold fixed interest securities as collateral for pension recipients' pension entitlements.

Expected utilisation of social capital

TEUR	31.12.2021	31.12.2020
Up to 3 months	91	187
More than 3 up to 12 months	728	927
More than 1 up to 5 years	5,292	4,625
More than 5 years	19,572	22,301
Social capital	**25,683**	**28,040**

Development of social capital

TEUR 2020	Severence provisions	Pensions provisions	Service anniversarv provisions	Total
Carrying value 1 January	17,677	5,906	2,957	26,540
Years of service expense	-264	0	-135	-399
Interest expense	550	84	240	874
Contribution payments	212	57	38	307
Actuarial gains/losses of financial assumptions	799	927	311	2,037
Foreign currency risk	0	-64	0	-64
Benefit payments	-718	-373	-108	-1,199
Other changes	-56	0	0	-56
Carrying value 31 December	18,200	6,537	3,303	28,040

TEUR 2021	Severence provisions	Pensions provisions	Service anniversary provisions	Total
Barwert 01.01.	18,200	6,537	3,303	28,040
Changes in the scope of consolidation	0	0	0	0
Years of service expense	502	97	278	877
Interest expense	205	51	45	301
Actuarial gains/losses of financial assumptions	-847	-788	-177	-1,812
Foreign currency risk	0	71	0	71
Benefit payments	-1,090	-532	-68	-1,690
Other changes	-104	0	0	-104
Carrying value 31 December	16,866	5,436	3,381	25,683

The actuarial gains/losses from severance and pension provisions of TEUR 1,634 (2020: TEUR -1,769) recognised in other comprehensive income are attributable to changes in financial assumptions.

For the defined benefit obligation for the employees of the St. Gallen branch, the components of the fund assets are described and the fund assets reconciled below.

Fund asset components

TEUR	31.12.2021	31.12.2020
Fair value of assets from defined benefit plans	5,460	4,954
of which equity instruments	536	588
of which debt securities	3,608	3,272
of which properties	1,170	1,005
of which other assets from defined benefit plans	146	89
Present value of obligations from defined benefit plans	7,091	7,236
Net defined benefit obligation – St. Gallen branch	1,631	2,282

Reconciliation of fund assets

TEUR	2021	2020
Fair value of assets from defined benefit plans on 1 January	4,954	3,992
Currency translation effects	226	19
Interest income from assets	8	10
Gain/loss on remeasurement of assets	68	-4
Employer contribution payments	310	272
Employee contribution payments	207	181
Plan participant contribution payments	642	772
Disbursements	-955	-288
Fair value of assets from defined benefit plans on 31 December	5,460	4,954

Changes in other provisions

TEUR 2020	Cuarantees and commitments	Credit risk	Ongoing itigation	Staff	Other	Total
Carrying value 1 January	3,990	849	987	380	12,044	18,250
Allocation	14,319	458	329	5	2,322	17,433
Use	0	0	-111	-24	-100	-235
Reversal	-1,921	-251	-424	0	-68	-2,664
Unwinding	-5	0	0	0	0	-5
Remaining adjustment	-5	0	0	0	0	-5
Carrying value 31 December	16,378	1,056	781	361	14,198	32,774

TEUR 2021	Cuarantees and commitments	Credit risk	Ongoing itigation	Staff	Other	Total
Carrying value 1 January	16,378	1,056	781	361	14,198	32,774
Allocation	23,850	122	633	5	11,745	36,355
Use	0	-130	-151	-33	-30	-344
Reversal	-12,129	-903	-135	0	-9,129	-22,296
Unwinding	10	0	0	0	0	10
Remaining adjustment	-21	0	0	0	0	-21
Carrying value 31 December	28,088	145	1,128	333	16,784	46,478

(38) INCOME TAX LIABILITIES

Income tax liabilities – breakdown by type

TEUR	31.12.2021	31.12.2020
Tax provision	5,029	1,097
Income tax liabilities	5	5
Income tax liabilities	5,034	1,102

Development of the tax provision

TEUR	2021	2020
Carrying value 1 January	1,097	1,051
Currency translation	48	6
Allocation	4,964	1,057
Use	-1,064	-1,017
Reversal	-16	0
Carrying value 31 December	5,029	1,097

The breakdown by maturity is shown in note (43).

(39) DEFERRED TAX

In the table below, deferred income tax assets are deducted from income tax liabilities when they represent a liability in net terms in the respective tax entity. The breakdown by maturity is shown in note (43).

TEUR	31.12.2021	31.12.2020
Temporary differences from the measurement of financial instruments via the income statement	28	28
Temporary differences from writing down assets	4,880	4,897
Temporary differences from provisions	0	547
Temporary differences from impairments	0	4
Other temporary differences	1,437	188
Deferred income tax liabilities	6,345	5,664
Set-off of deferred taxes	-3,802	-3,237
Net deferred income tax liabilities	2,543	2,427

For the recognition of the actuarial gains and losses on defined benefit plans, TEUR -3,837 (2020: TEUR -5,472) was recognised in other comprehensive income. The related deferred taxes (tax liability) amount to TEUR 959 (2020: TEUR 1,368). Deferred taxes (tax liability) of TEUR -7,713 (2020: TEUR -4,971) were also recognised in other comprehensive income of TEUR 1,928 (2020: TEUR 1,243), which was recognised outside of profit or loss.

There are otherwise no outside basis differences within the Group.

(40) OTHER LIABILITIES

TEUR	31.12.2021	31.12.2020
Liabilities in connection with social security	1,162	1,652
Other tax liabilities	2,985	2,351
Accruals	8,842	9,298
Other accrued benefits	5,444	6,405
Remaining liabilitie	23,982	20,536
Other liabilities	**42,415**	**40,242**

(41) SHAREHOLDERS' EQUITY

Composition of equity by types

TEUR	31.12.2021	31.12.2020
Share capital	162,152	162,152
Capital reserve	44,674	44,674
Accumulated other comprehensive income	**-8,659**	**-7,849**
Total items without recycling	**-8,663**	**-7,832**
Measurement of pension plans	-2,878	-4,104
Measurement from own change in credit rating	-5,785	-3,728
Total items with recycling	**4**	**-17**
Foreign currency measurements	4	-17
Retained earnings	1,087,598	1,027,655
Reserves from equity consolidation	4,568	4,038
Total parent company shareholders	**1,290,333**	**1,230,670**
Non-controlling equity interests	57	2,562
Total equity	**1,290,390**	**1,233,232**

The subscribed capital consists of share capital of TEUR 162,152 (2020: TEUR 162,152), which was fully paid in. On 31 December 2021, 316.736 (2020: 316,736) shares with a nominal value of EUR 512 were issued.

Retained earnings include the legal reserve. The reversal of the legal reserve amounting to TEUR 10,601 (2020: TEUR 10,601) is connected to the UGB in conjunction with the AktG.

Liable capital as per Section 57 (5) of the Austrian Banking Act is also reported under retained earnings. Liable capital amounting to TEUR 134,924 (2020: TEUR 134,924) may only be reversed in as much as this is necessary to fulfil obligations in accordance with Section 93 of the Austrian Banking Act or to cover other losses to be reported in the annual financial statements. Liable capital must be replenished to the extent of the amount reversed within the following five financial years at the latest.

Reconciliation of accumulated other comprehensive income

TEUR	Valuation Pensions plans	Valuation from our own Credit rating change	foreign currency valuation	Total
Balance 1 January 2020	**-2,778**	**-2,711**	**4**	**-5,485**
Equity transfer	0	0	-4	-4
OCI measurement, not recyclable	-1,769	-1,357	0	-3,126
Deferred taxes, not recyclable	443	340	0	783
OCI measurement, recyclable	0	0	-17	-17
Balance 31 December 2020	**-4,104**	**-3,728**	**-17**	**-7,849**
Balance 1 January 2021	**-4,104**	**-3,728**	**-17**	**-7,849**
Equity transfer	0	0	17	17
OCI measurement, not recyclable	1,634	-2,742	0	-1,108
Deferred taxes, not recyclable	-408	685	0	277
OCI measurement, recyclable	0	0	4	4
Balance 31 December 2021	**-2,878**	**-5,785**	**4**	**-8,659**

Other comprehensive income includes a sum of TEUR -327 (2020: TEUR -298) attributable to financial instruments already repaid or sold that are voluntarily measured at fair value.

Dividends of Hypo Vorarlberg Bank AG
Hypo Vorarlberg Bank AG can distribute a dividend no larger than the unappropriated surplus of TEUR 4,434 (2020: TEUR 6,335) reported in the separate financial statements according to BWG and UGB.

The net profit according to UGB posted by Hypo Vorarlberg Bank AG for the 2021 financial year amounted to TEUR 67,756 (2020: TEUR 36,390). After the allocation to reserves of TEUR 63,321 (2020: TEUR 33,539) and the addition of the retained profit of TEUR 0 (2020: TEUR 3,484), accumulated profits available for appropriation totalled TEUR 4,434 (2020: TEUR 36,335). Subject to approval by the shareholders' meeting and taking account of further developments up until the time of this resolution, a dividend of EUR 14 (2020: 20) per entitled share is proposed based on the shares and the associated share capital of TEUR 162,152 (2020: 162,152). The dividend distribution will therefore be TEUR 4,434 (2020: 6,335) for 316,736 shares (2020: 316,736 shares).

(42) FOREIGN CURRENCY VOLUME AND FOREIGN-DENOMINATED ASSETS

TEUR 31.12.2020	EUR	USD	CHF	JPY	Other	Total
Cash and balances with central banks	1,122,067	2,690	203,801	1,414	8,650	1,338,622
Trading assets	121,092	11	197	1,072	164	122,536
Financial assets at fair value (non-SPPI)	687,077	35,043	14,051	14,728	0	750,899
Financial assets at fair value (option)	315,015	0	5,038	0	13,804	333,857
Financial assets at amortized cost	10,598,673	153,035	1,411,918	14,970	153,605	12,332,201
Positive market values of hedges	177,401	0	12,925	0	1,051	191,377
Affiliates	968	0	0	0	0	968
Shares in companies valued at equity	3,325	0	0	0	0	3,325
Property, plant and equipment	75,987	0	6,318	0	0	82,305
Investment property	52,129	0	0	0	0	52,129
Intangible assets	1,627	0	216	0	0	1,843
Income tax assets	15,432	0	0	0	0	15,432
Deferred income tax assets	15,319	0	0	0	0	15,319
Other assets	50,585	35	5,239	0	96	55,955
Total assets	**13,236,697**	**190,814**	**1,659,703**	**32,184**	**177,370**	**15,296,768**

TEUR 31.12.2020	EUR	USD	CHF	JPY	Other	Total
Trading liabilities	111,762	2,771	123	2,538	159	117,353
Financial liabilities at fair value (option)	798,601	0	0	4,998	0	803,599
Financial liabilities at amortized cost	11,548,038	187,964	1,034,392	4,447	99,283	12,874,124
Negative market values of hedges	148,922	2,910	8,549	0	3,494	163,875
Provisions	58,481	0	2,333	0	0	60,814
Income tax liabilities	621	0	481	0	0	1,102
Deferred income tax liabilities	2,330	0	97	0	0	2,427
Other liabilities	38,860	111	1,271	0	0	40,242
Shareholders' equity	1,233,194	0	27	0	11	1,233,232
Total liabilities and shareholders' equity	**13,940,809**	**193,756**	**1,047,273**	**11,983**	**102,947**	**15,296,768**

TEUR 31.12.2021	EUR	USD	CHF	JPY	Other	Total
Cash and balances with central banks	1,520,324	21,026	261,690	783	2,733	1,806,556
Trading assets	83,821	804	442	1,265	278	86,610
Financial assets at fair value (non-SPPI)	624,981	49,094	13,905	14,271	0	702,251
Financial assets at fair value (option)	282,590	0	5,122	0	13,866	301,578
Financial assets at amortized cost	10,655,426	123,640	1,440,160	10,703	160,372	12,390,301
Positive market values of hedges	112,302	280	6,996	0	0	119,578
Affiliates	968	0	0	0	0	968
Shares in companies valued at equity	3,522	0	0	0	0	3,522
Property, plant and equipment	73,081	0	6,291	0	0	79,372
Investment property	46,809	0	0	0	0	46,809
Intangible assets	1,085	0	113	0	0	1,198
Income tax assets	15,188	0	0	0	0	15,188
Deferred income tax assets	14,649	0	1	0	0	14,650
Cash and balances with central banks	54,387	38	2,975	0	132	57,532
Total assets	**13,489,133**	**194,882**	**1,737,695**	**27,022**	**177,381**	**15,626,113**

TEUR 31.12.2021	EUR	USD	CHF	JPY	Other	Total
Trading liabilities	101,759	2,103	2	1,704	131	105,699
Financial liabilities at fair value (option)	666,993	0	0	4,750	0	671,743
Financial liabilities at amortized cost	12,017,614	185,431	1,040,938	5,086	49,854	13,298,923
Negative market values of hedges	112,056	1,842	19,927	0	3,380	137,205
Provisions	70,513	0	1,648	0	0	72,161
Income tax liabilities	3,930	0	1,104	0	0	5,034
Deferred income tax liabilities	2,438	0	105	0	0	2,543
Other liabilities	40,171	176	2,068	0	0	42,415
Shareholders' equity	1,290,313	0	77	0	0	1,290,390
Total liabilities and shareholders' equity	**14,305,787**	**189,552**	**1,065,869**	**11,540**	**53,365**	**15,626,113**

The difference between assets and liabilities in the individual currencies does not constitute the Group's open foreign exchange position according to Article 352 CRR. Open foreign exchange positions are hedged with derivative financial instruments such as currency swaps or cross-currency swaps. However, these hedges are not carried in the IFRS balance sheet at nominal value but at market value. The sum of all open foreign exchange positions according to Article 352 CRR as of 31 December 2021 was TEUR 6,488 (2020: TEUR 2,820).

Foreign-denominated assets and liabilities

TEUR	31.12.2021	31.12.2020
Foreign assets	4,793,825	5,119,150
Foreign liabilities	2,690,917	3,193,390

(43) MATURITIES

TEUR 31.12.2020	Payable on demand	Up to 3 Months	Up to 1 year	Up to 5 years	More than 5 years	Without maturity	Total
Cash and balances with central banks	1,315,467	0	0	0	0	23,155	1,338,622
Trading assets	0	3,135	3,567	19,473	96,225	136	122,536
Financial assets at fair value (non-SPPI)	146,321	74,042	29,561	263,837	223,614	13,524	750,899
Financial assets at fair value (option)	4	5,042	19,899	146,428	162,484	0	333,857
Financial assets at amortized cost	749,582	1,130,597	1,336,413	4,285,412	4,751,536	78,661	12,332,201
Positive market values of hedges	0	677	1,453	66,951	122,296	0	191,377
Affiliates	0	0	0	0	0	968	968
Shares in companies valued at equity	0	0	0	0	0	3,325	3,325
Property, plant and equipment	0	0	0	0	0	82,305	82,305
Investment property	0	0	0	0	0	52,129	52,129
Intangible assets	0	0	0	0	0	1,843	1,843
Income tax assets	0	0	14,879	553	0	0	15,432
Deferred income tax assets	-2,406	-366	-13,236	-1,188	32,544	-29	15,319
Other assets	12,735	3,713	1,353	6,270	1,393	30,491	55,955
Total assets	**2,221,703**	**1,216,840**	**1,393,889**	**4,787,736**	**5,390,092**	**286,508**	**15,296,768**

TEUR 31.12.2020	Payable on demand	Up to 3 Months	Up to 1 year	Up to 5 years	More than 5 years	Without maturity	Total
Trading liabilities	0	1,987	3,305	27,317	84,744	0	117,353
Financial liabilities at fair value (option)	0	27,867	22,189	103,525	650,018	0	803,599
Financial liabilities at amortized cost	4,603,744	338,091	422,532	5,020,077	2,489,639	41	12,874,124
Negative market values of hedges	0	68	3,914	53,985	105,908	0	163,875
Provisions	2,646	288	11,061	21,313	24,188	1,318	60,814
Income tax liabilities	20	158	770	0	0	154	1,102
Deferred income tax liabilities	2	0	0	37	1,863	525	2,427
Other liabilities	22,152	6,465	8,383	2,772	470	0	40,242
Shareholders' equity	0	0	0	0	0	1,233,232	1,233,232
Total liabilities and shareholders' equity	**4,628,564**	**374,924**	**472,154**	**5,229,026**	**3,356,830**	**1,235,270**	**15,296,768**

TEUR 31.12.2021	Payable on demand	Up to 3 Months	Up to 1 year	Up to 5 years	More than 5 years	Without maturity	Total
Cash and balances with central banks	1,783,957	0	0	0	0	22,599	1,806,556
Trading assets	0	1,591	3,389	15,123	66,347	160	86,610
Financial assets at fair value (non-SPPI)	96,431	51,421	56,441	278,147	207,082	12,729	702,251
Financial assets at fair value (option)	2	4,765	18,935	151,358	126,518	0	301,578
Financial assets at amortized cost	646,895	1,178,635	1,428,163	4,235,953	4,880,976	19,679	12,390,301
Positive market values of hedges	0	210	3,942	48,828	66,598	0	119,578
Affiliates	0	0	0	0	0	968	968
Shares in companies valued at equity	0	0	0	0	0	3,522	3,522
Property, plant and equipment	0	0	0	0	0	79,372	79,372
Investment property	0	0	0	0	0	46,809	46,809
Intangible assets	0	0	0	0	0	1,198	1,198
Income tax assets	53	0	14,582	553	0	0	15,188
Deferred income tax assets	-250	-65	-1,112	-2,980	19,547	-490	14,650
Cash and balances with central banks	19,260	3,833	1,920	4,564	21	27,934	57,532
Total assets	**2,546,348**	**1,240,390**	**1,526,260**	**4,731,546**	**5,367,089**	**214,480**	**15,626,113**

TEUR 31.12.2021	Payable on demand	Up to 3 Months	Up to 1 year	Up to 5 years	More than 5 years	Without maturity	Total
Trading liabilities	0	2,022	3,032	42,726	57,919	0	105,699
Financial liabilities at fair value (option)	0	0	21,654	99,223	550,866	0	671,743
Financial liabilities at amortized cost	4,531,641	433,527	579,973	5,117,755	2,635,986	41	13,298,923
Negative market values of hedges	0	661	4,797	44,061	87,686	0	137,205
Provisions	6,211	4,188	7,438	29,735	21,932	2,657	72,161
Income tax liabilities	21	42	4,971	0	0	0	5,034
Deferred income tax liabilities	8	0	0	37	1,929	569	2,543
Other liabilities	17,635	7,113	5,619	10,611	1,437	0	42,415
Shareholders' equity	0	0	0	0	0	1,290,390	1,290,390
Total liabilities and shareholders' equity	**4,555,516**	**447,553**	**627,484**	**5,344,148**	**3,357,755**	**1,293,657**	**15,626,113**

D. FURTHER IFRS INFORMATION

(44) DISCLOSURES ON THE CASH FLOW STATEMENT

The cash flow statement is prepared according to the indirect method. The net cash flow from operating activities is calculated on the basis of consolidated net profit after adding expenses and deducting income that did not affect cash in the financial year. All expenses and income that did affect cash but are not attributable to operating activities are also eliminated. These payments are included in cash flow from investing or financing activities.

(45) CONTINGENT LIABILITIES AND CREDIT RISKS

Off-balance liabilities

TEUR	31.12.2021	31.12.2020
Loan commitments granted	2,282,642	2,298,319
Financial guarantees granted	464,276	426,162
Other guarantees granted	37,836	20,661
Off-balance liabilities	2,784,754	2,745,142

The loan commitments issued include loans granted but not yet drawn upon by customers. This primarily includes loan commitments but also unutilised credit lines. The credit risks were recognised at nominal value. Contingent liabilities from financial guarantees represent commitments to third parties to assume liability for our customers. If the guarantee holder fails to meet its contractual obligations, the beneficiary may utilise the Bank's financial guarantee. In turn, the Bank is able to claim recourse from its customers. The amounts shown represent the maximum amount that could lead to a payment in the event of utilisation. The recognition of contingent liabilities in connection with financial guarantees is difficult, because the utilisation of the commitment cannot be predicted or plausibly estimated. Other commitments issued constitute certain trust activities and documentary credit transactions.

Contingent liabilities -- breakdown by residual duration

TEUR	31.12.2021	31.12.2020
Repayable on demand	2	15,797
Up to 3 months	51,520	21,808
Up to 1 year	103,874	78,825
Up to 5 years	181,657	161,949
More than 5 years	62,116	72,194
Unlimited	102,943	96,250
Contingent liabilities	502,112	446,823

Besides the contingent liabilities described above, there are also the following contingent obligations.

Obligation from the membership of the deposit insurance company "Einlagensicherung AUSTRIA Ges.m.b.H. (ESA)" required under Section 8 of the Austrian Federal Act on Deposit Protection and Investor Compensation at Banks (ESAEG):
Pursuant to Article 8 (1) ESAEG, Hypo Vorarlberg, as a deposit-taking institution (CRR institution) domiciled in Austria, is a member of the uniform protection scheme pursuant to Article 1 (1) (1) ESAEG. Each protection scheme must set up a deposit guarantee fund consisting of available financial resources amounting to at least 0.8 % of the total covered deposits of the member institutions (target coverage). The obligation to contribute is based on the amount of covered deposits using previously defined risk factors (so-called risk-based contribution calculation). For Hypo Vorarlberg, this results in a contribution of TEUR 4,682 (2020: TEUR 2,852). As a result of the Russia-Ukraine conflict, Sberbank Europe AG was prohibited from continuing its business operations by the Financial Market Authority in February 2022, which led to Sberbank Europe AG becoming a deposit guarantee case.

In addition, according to § 22 (1) ESAEG, the ESA must prescribe special contributions for its member institutions per calendar year amounting to a maximum of 0.5 % of the sum of the covered deposits of its member institutions and collect them in a timely manner if the available financial resources of a protection scheme are not sufficient to compensate the depositors in the case of a protection event or to meet obligations from credit operations.

In the event of a protection case, the deposit guarantee protects credit balances on accounts and savings books up to EUR 100,000 per customer and per credit institution. In certain cases, the secured amount is increased to up to EUR 500,000 per customer and credit institution. In both cases, there is no deductible for investors. Likewise, the deposit guarantee also includes the protection of deposited securities of a customer in the event of a guarantee case with an amount of up to EUR 20,000 per customer and credit institution. In the case of non-natural persons, a deductible of 10 % is to be borne by the customer.

(46) INTEREST-FREE LOANS AND ADVANCES

TEUR	31.12.2021	31.12.2020
Interest-free loans and advances to banks	1,960	1,718
Interest-free loans and advances to customers	116,213	104,791
Interest-free loans and advances	118,173	106,509

Interest-free loans and advances to banks mainly constitute non-interest-bearing balances at clearing houses and receivables from payment transactions. Loans and advances to customers are classified as interest-free when the collection of interest payments in future periods can no longer be expected. Sufficient valuation allowances have already been recognised for these loans and advances.

(47) COLLATERAL

Assets provided as collateral

TEUR	31.12.2021	31.12.2020
Financial assets at fair value (non-SPPI)	246,234	286,324
Financial assets at fair value (option)	272,905	302,316
Financial assets at amortized cost	7,756,666	7,106,213
Assets provided as collateral	8,275,805	7,694,853
of which covered pool for mortgage bonds	4,216,965	3,564,980
of which covered pool for public-sector mortgage bonds	535,720	646,456

Assignment of collateral

TEUR	31.12.2021	31.12.2020
Backing for refinancing with central banks	2,008,956	1,862,489
Covered pool for mortgage bonds	4,952,208	4,294,334
Covered pool for public-sector mortgage bonds	581,230	712,607
Surplus cover for mortgage bonds and municipal bonds	117,694	110,967
Covered pool for trust savings deposits	30,873	30,981
Cover for pension provisions	2,107	2,155
Genuine repurchase agreements, repos	385,812	488,641
Deposits, collateral, margins	196,925	192,679
Collateral – breakdown by assignment	8,275,805	7,694,853

Utilisation of collateral

TEUR	31.12.2021	31.12.2020
Backing for refinancing with central banks	2,766,873	2,503,232
Covered pool for mortgage bonds	3,788,981	3,258,701
Covered pool for public-sector mortgage bonds	381,094	484,330
Surplus cover for mortgage bonds and municipal bonds	117,694	110,967
Covered pool for trust savings deposits	25,700	25,350
Cover for pension provisions	2,107	2,155
Deposits, collateral, margins	196,924	192,679
Collateral – breakdown by utilisation	7,279,373	6,577,414

In the case of the collateral listed, the collateral taker does not have the right to realise the collateral or to further pledge it. Therefore, there were no reclassifications in the balance sheet for the collateral provided.

The Bank, as collateral taker, does not hold any collateral that it may sell without a given default of the holder or use again as collateral without the consent of the holder.

The covered pool for mortgage bonds contains loan receivables of the St. Gallen branch of TEUR 430,252 (2020: TEUR 0). In order to guarantee the equal legal and economic position of the mortgage bond creditors with regard to these cover assets, the loan receivables including their mortgage collateral were transferred to HVS Sicherheitenverwaltung GmbH, based in Switzerland, as the mortgage bond creditors' collateral trustee by way of transfer of ownership.

(48) SUBORDINATED ASSETS

TEUR	31.12.2021	31.12.2020
Financial assets at fair value (non-SPPI)	60,303	46,756
Financial assets at amortized cost	20,288	29,406
Subordinated assets	80,591	76,162
of which debt securities	77,413	72,953
of which loans and credits	3,178	3,209

(49) FIDUCIARY TRANSACTIONS ADVANCES

TEUR	31.12.2021	31.12.2020
Loans and advances to customers	142,792	128,210
Fiduciary assets	142,792	128,210
Amounts owed to banks	119,355	113,650
Amounts owed to customers	24,284	15,253
Fiduciary liabilities	143,639	128,903

(50) REPURCHASE AGREEMENTS

There were no genuine repurchase agreements as at 31 December 2021 or in the previous year.

(51) RELATED PARTY DISCLOSURES

Related parties include:

- The owners of Vorarlberger Landesbank-Holding and Austria Beteiligungsgesellschaft m.b.H. and their owners
- The Managing Board and Supervisory Board of Hypo Vorarlberg Bank AG and their next of kin
- Managing directors of consolidated subsidiaries and their next of kin
- Senior employees of Hypo Vorarlberg Bank AG as defined by Section 80 of the Austrian Stock Corporation Act (AktG) and their next of kin
- Senior employees of the subsidiaries of Hypo Vorarlberg Bank AG and their next of kin
- Legal representatives and members of the supervisory bodies of significant shareholders
- Subsidiaries and other companies in which Hypo Vorarlberg Bank AG holds a stake
- Companies over which related parties exert significant influence

Advances, loans and warranties

At the end of the year, the Managing Board members and managing directors and their next of kin had received advances, loans and warranties amounting to TEUR 1,330 (2020: TEUR 2,090) at the customary terms and conditions for Bank employees. At the end of the year, the Supervisory Board members and their next of kin had received advances, loans and warranties amounting to TEUR 15,163 (2020: TEUR 20,938) for themselves and for companies for which they are employees liable at the customary terms and conditions for the Bank or for Bank employees.

Remuneration

The remuneration for members of the Managing Board consists of only a fixed amount. There are no variable remuneration components. In some cases, variable remuneration determined individually by the Managing Board has been agreed for managing directors and senior employees due to individual targets. There are no share based remuneration schemes.

In 2021, Hypo Vorarlberg Bank AG spent the following amounts for the active Managing Board members:

TEUR	2021	2020
Michel Haller	345	353
Johannes Hefel	0	342
Wilfried Amann	291	294
Philipp Hämmerle	276	152
Managing Board remuneration	912	1,141

TEUR	2021	2020
Managing Board members and managing directors	1,749	1,918
Retired Managing Board members and survivors	70	69
Managerial personnel	5,182	4,591
Supervisory Board members	332	210
Remuneration paid to related parties	7,333	6,788

Severance and pensions

The expenses for severance and pensions to related parties comprise the amounts shown in the table below.

TEUR	2021	2020
Managing Board members and managing directors	120	279
Retired Managing Board members and survivors	17	57
Managerial personnel	1,378	1,214
Severance and pensions paid to related parties	1,515	1,550

The Group purchased services amounting to TEUR 74 (2020: TEUR 52) from companies in which parties related to the Group hold a significant interest.

Business relationships with affiliated companies

TEUR	31.12.2021	31.12.2020
Equity instruments	0	0
Loans and advances	114	6
Financial assets	114	6
Deposits	225	218
Financial liabilities	225	218

Apart from equity investments in affiliated, non-consolidated companies, business activities with affiliated companies comprise only business current accounts. The deposits currently have an interest rate of 0 % (2020: 0 %).

Income and expenses from affiliated companies

As in the previous year, income and expenses with affiliated companies came to less than TEUR 1 in the reporting year.

Business relationships with associated companies

TEUR	31.12.2021	31.12.2020
Equity instruments	12	12
Financial assets	12	12
Deposits	2,372	2,363
Financial liabilities	2,372	2,363
Nominal values of derivatives	0	0

In addition to equity instruments, transactions with associated companies also include loans, cash advances, credits, business current accounts, savings deposits and time deposits. These transactions are concluded at standard market conditions. As at the reporting date, no warranties were assumed for associated companies, as in the previous year. No derivative transactions were concluded with associated companies in 2021.

Income and expenses from associated companies

TEUR	2021	2020
Dividend earnings	319	821
Fee and commission income	1	2
Total income/expenses from associated companies	320	823

Business relationships with shareholders

TEUR	31.12.2021	31.12.2020
Equity instruments	0	10,021
Debt securities	16,374	11,373
Loans and advances	49,508	100,591
Financial assets	65,882	121,985
Deposits	206,092	31,786
Financial liabilities	206,092	31,786
Nominal values of off-balance-sheet items	356,205	269,434
Nominal values of derivatives	1,303,549	1,521,133

The term shareholder refers to the two holding companies with a direct equity holding in Hypo Vorarlberg Bank AG, as well as the indirect shareholders, the state of Vorarlberg, Landesbank Baden-Württemberg and Landeskreditbank Baden-Württemberg Förderbank. Transactions with shareholders with significant influence primarily include loans, cash advances, credits, business current accounts, savings deposits and time deposits. We have also concluded derivative transactions with Landesbank Baden-Württemberg with a total market value of TEUR 6,448 (2020: TEUR 19,575) to hedge against market price and interest rate risks. The positive market values of derivatives are partly hedged in connection with cash collateral. There is usually no collateral for the remaining loans and advances. All of these transactions were concluded at standard market conditions.

Income and expenses from significant shareholders

TEUR	2021	2020
Vorarlberger Landesbank-Holding	11,707	15,751
Austria Beteiligungsgesellschaft mbH	-7,995	-9,961
- Landesbank Baden-Württemberg	1,863	1,831
- Landeskreditbank Baden-Württemberg Förderbank	0	-1
Share capital	5,575	7,620

Shareholders of Hypo Vorarlberg Bank AG

Shareholders 31.12.2021	Total shares	Voting rights
Vorarlberger Landesbank-Holding	76.8732 %	76.8732 %
Austria Beteiligungsgesellschaft mbH	23.1268 %	23.1268 %
- Landesbank Baden-Württemberg	15.4179 %	
- Landeskreditbank Baden-Württemberg Förderbank	7.7089 %	
Share capital	100.0000 %	100.0000 %

Because of its competence as a housing bank, Hypo Vorarlberg Bank AG has been appointed by the state of Vorarlberg to administer the state housing construction fund. The Group is not in a permanent business relationship with Austria Beteiligungsgesellschaft m.b.H. Numerous transactions typical of a banking relationship have been conducted with Landesbank Baden-Württemberg.

Business relationship with state-related companies

TEUR	31.12.2021	31.12.2020
Loans and advances	103,219	97,369
Financial assets	103,219	97,369
Deposits	91,863	96,025
Financial liabilities	91,863	96,025
Nominal values of off-balance-sheet items	28,236	35,007

Transactions with state-related companies include loans and credits, business current accounts and time deposits. These transactions were concluded at standard market conditions.

Income and expenses from state-related companies

TEUR	2021	2020
Interest income	877	813
Interest expenses	-53	-29
Fee and commission income	419	436
Total income/expenses from state-related companies	1,243	1,220

There were no doubtful debts due from related parties in financial year 2021 or the comparative period. Therefore, neither provisions nor expenses were required for impairment or write-downs on debts due from related parties.

(52) SHARE-BASED PAY ARRANGEMENTS

There were no pay arrangements for shares in the Group as of 31 December 2021.

(53) HUMAN RESOURCES

	2021	2020
Full-time salaried staff	590	573
Part-time salaried staff	121	112
Apprentices	7	6
Cleaning staff / workers	1	3
Average number of employees	719	694

(54) EVENTS AFTER THE END OF THE REPORTING PERIOD

On 3 October 2021, the federal government decided on the key points of the ecological and social tax reform, which was passed by the National Council on 20 January 2022 and published in the Federal Law Gazette on 14 February 2022. The reform will incrementally lower the rate of corporate income tax from 25 % to 23 %. It will be reduced by 1 % from 25 % to 24 % from 1 January 2023 and by 1 % from 24 % to 23 % from 1 January 2024. The effect of the change in tax rate is expected to amount to TEUR -863 on deferred tax assets and TEUR -170 on deferred tax liabilities and to reduce total comprehensive income by TEUR -693.

On 24 February 2022, Russia launched a military attack on Ukraine. The situation has continued to intensify since then, with the capital city Kyiv increasingly being targeted and Russia's nu-clear forces also put on alert. President Putin has agreed to start negotiations and specified conditions under which he would stop the war, but these are currently not acceptable to Ukraine. Ac-cording to UN estimates, around two million people had already fled to Ukraine's neighbouring countries as of mid-March. The World Bank and the IMF have committed to providing aid packages in the billions for Ukraine.

Western countries responded to Russia's invasion with various sanctions: Starting from 28 February, payment transactions with Russia and with Russian banks were blocked and conversions from Russian roubles were no longer possible. Trading in Russian securities has also been limited or completely suspended.

Since 1 March, trading in Russian certificates (ADRs/GDRs) on all stock exchanges has no longer been possible, and the settlement of Russian securities on the Russian market as well as dividend, interest and principal payments for all securities in RUB have been suspended until further notice. The EU member states also agreed on 1 March to exclude seven Russian banks from the international payment system SWIFT. Russia was downgraded by the rating agencies, and a few days later the ratings for Ukraine and Belarus were also lowered significantly.

Effects on Hypo Vorarlberg

In addition to the generally imposed sanctions, Hypo Vorarlberg has taken appropriate measures to minimise risk.
The economic effects of the war on the Hypo Vorarlberg Group are currently difficult to estimate. Due to its strategic focus on Austria, Switzerland, Germany and northern Italy, the company has no significant Russia exposure and is currently affected only indirectly, for example through the stock exchange situation, payment transactions and increased energy and commodity prices. As many Austrian companies have economic ties with Russia and Ukraine, it is not yet clear at present how and to what extent the sanctions will impact the domestic economy.

Sberbank deposit protection incident

On 1 March 2022, the Austrian Financial Market Authority prohibited Sberbank Europe AG from continuing its operations, with immediate effect. Customers therefore no longer have access to the accounts kept for them there. In accordance with Section 9 of the Austrian Deposit Protection and Investor Compensation Act (ESAEG), a deposit protection incident thus occurred. Hypo Vorarlberg is affiliated with Einlagensicherung Austria.

E. SEGMENT REPORTING

Reporting by business segment

TEUR		Corporate customers	Private customers	Financial Markets	Corporate Center	Total
Net interest income	2021	111,637	30,753	34,708	18,963	196,061
	2020	101,313	34,347	17,799	20,701	174,160
Dividend income	2021	0	0	594	200	794
	2020	0	0	472	216	688
Net fee and commission income	2021	15,918	23,654	1,990	-3,539	38,023
	2020	14,459	19,255	1,950	-1,017	34,647
Net result from financial instruments at amortized cost	2021	5	0	440	-2	443
	2020	0	0	1,518	0	1,518
Net result from financial instruments at fair value	2021	-6,150	1,308	-1,015	-10	-5,867
	2020	-10,086	1,539	1,620	-1,307	-8,234
Other income	2021	498	452	2	27,190	28,142
	2020	710	452	125	15,770	17,057
Other expenses	2021	-5,733	-5,528	-6,882	-23,875	-42,018
	2020	-4,452	-3,988	-5,581	-9,891	-23,912
Administrative expenses	2021	-36,993	-41,108	-10,776	-9,869	-98,746
	2020	-35,998	-41,096	-11,089	-6,929	-95,112
Depreciation and amortization	2021	-828	-798	-53	-6,449	-8,128
	2020	-826	-867	-54	-6,438	-8,185
Loan loss provisions and impairment of financial assets	2021	-12,634	-562	214	-2,314	-15,296
	2020	-33,130	-848	576	-8,041	-41,443
Impairment of non-financial assets	2021	0	0	0	-259	-259
	2020	0	0	0	-2,808	-2,808
Result from equity consolidation	2021	0	0	0	529	529
	2020	0	0	0	449	449
Earnings before taxes	2021	65,720	8,171	19,222	565	93,678
	2020	31,990	8,794	7,336	705	48,825
Assets	2021	7,160,821	2,314,140	4,826,977	1,324,175	15,626,113
	2020	7,089,098	2,175,655	4,663,076	1,368,939	15,296,768
Liabilities and shareholders' equity	2021	2,015,324	2,761,493	9,165,605	1,683,691	15,626,113
	2020	1,883,949	2,719,328	8,939,410	1,754,081	15,296,768
Liabilities	2021	2,013,953	2,756,609	9,159,265	405,896	14,335,723
	2020	1,882,993	2,715,230	8,896,723	568,590	14,063,536

The allocation of the "net result from financial instruments at fair value" item was adjusted in the previous year. Gains and losses on the remeasurement of hedging instruments are now recognised in the same segment as the underlying transaction if this is measured at fair value through profit or loss, as fair value measurements of hedged items and hedging instruments largely cancel each other out. This adjustment increases the informational value of segment reporting. Originally, gains and losses on the remeasurement of hedging instruments were allocated to the Financial Markets segment.

TEUR		Corporate customers	Private customers	Financial Markets	Corporate Center	Total
Result from financial instruments at fair value - reported so far	2020	8,417	1,539	-16,883	-1,307	-8,234
Result from financial instruments at fair value - new	2020	-10,086	1,539	1,620	-1,307	-8,234
Result from financial instruments at fair value adjustment	2020	-18,503	0	18,503	0	0
Result before tax - reported so far	2020	50,493	8,794	-11,167	705	48,825
Result before taxes - new	2020	31,990	8,794	7,336	705	48,825
Result before taxes - adjustment	2020	-18,503	0	18,503	0	0

For the purposes of business management, the Group is organised into business units according to customer and product groups and has the four reportable business segments described below. No business segments have been combined to form these reportable business segments. The management monitors the business units' earnings before taxes separately in order to make decisions on the allocation of resources and to determine the profitability of the units. The segments' performance is assessed on the basis of earnings before taxes and measured in accordance with earnings before taxes in the consolidated financial statements.

Internal reporting is carried out according to these segments on the basis of both the Austrian Corporate Code (UGB) and International Financial Reporting Standards (IFRS). For this reason, no separate reconciliation is required. The liabilities shown in the segments include liabilities, provisions and social capital as well as subordinated capital. Revenue is not calculated per product and service or for groups of similar products and services because of the inordinately high implementation costs that would be required to ascertain this data.

Net interest income is determined per segment on the basis of the internationally accepted Schierenbeck market interest rate method. The effective interest rate is compared to a benchmark interest rate with regard to both receivables and liabilities. The resulting margin contribution is credited to the individual segments. The structure contribution determined from the maturity transformation is assigned to the Financial Markets segment. For this reason, it is not possible to show interest income and interest expenses separately. As the income and expenses per segment are determined directly, there are no transactions or allocations between the segments. In the Corporate Centre segment, an amount of TEUR 3,522 (2020: TEUR 3,325) was included in assets from consolidation according to the equity method.

Corporate customers
The Corporate Customers segment comprises customers active in the commercial, industrial and trade sectors. Both large customers and small-and medium-sized enterprises are covered by this segment. In addition, income and expenses arising in connection with business relationships with public institutions (federal, state and local governments) are recognised in this segment. Customers of the St. Gallen branch are also assigned to this segment irrespective of customer type or sector. However, self-employed persons whose businesses do not exceed the size of a sole proprietorship are not included. With regard to product groups, this segment includes loans, credits, cash advances, current accounts, demand deposits, term deposits and savings deposits vis-à-vis the above customer groups. Net fee and commission income also includes the income from custodian business with these customer groups.

Private customers
This segment covers all employees (private households) and some self-employed persons (freelancers). This segment does not include the private households and freelancers of the St. Gallen branch, as these are all covered by the Corporate Customers segment. In addition, earnings contributions from insurance companies and pension funds are also counted towards this segment. This segment does not include private persons closely associated with a business (corporate customers) as an owner or shareholder. With regard to product groups, this segment includes loans, credits, cash advances, current accounts, demand deposits, term deposits and savings deposits vis-à-vis the above customer groups. Net fee and commission income also includes the income from custodian business with these customer groups.

Financial markets
This segment includes financial assets, trading assets, derivative financial instruments, issuing business and profit or loss from interbank relations. The profit or loss from the custodian bank function is also allocated to this segment. With regard to product groups, this segment primarily includes financial assets in the form of securities and occasionally promissory note loans. Similarly, funds raised from issues of securities and a few large-volume term deposits are also allocated to the Financial Markets segment. Net fee and commission income also includes the income from custodian business in connection with the custodian bank function.

Corporate Centre
All banking transactions with our subsidiaries and associated companies are reported in this segment. In addition, income from activities that do not constitute banking business is also allocated to this segment, such as leasing business, insurance brokerage, leasing and utilisation of real estate, real estate brokerage, facility management services, other services and income from subsidiaries and investments.

Recognition and reversal of impairment

TEUR		Corporate customers	Private customers	Financial Markets	Corporate Center	Total
Recognition of impairments	2021	-27,188	-3,460	-186	-5,613	-36,447
	2020	-34,587	-4,084	-416	-12,961	-52,048
Reversals of impairments	2021	25,404	3,107	399	6,658	35,568
	2020	13,985	3,722	989	3,194	21,890

Reporting by region

TEUR		Austria	Third country	Total
Net interest income	2021	171,851	24,210	196,061
	2020	147,390	26,770	174,160
Dividend income	2021	794	0	794
	2020	688	0	688
Net fee and commission income	2021	37,458	565	38,023
	2020	34,268	379	34,647
Net result from financial instruments at amortized cost	2021	438	5	443
	2020	1,518	0	1,518
Net result from financial instruments at fair value	2021	-6,887	1,020	-5,867
	2020	-8,552	318	-8,234
Other income	2021	21,751	6,391	28,142
	2020	12,640	4,417	17,057
Other expenses	2021	-36,012	-6,006	-42,018
	2020	-20,199	-3,713	-23,912
Administrative expenses	2021	-87,186	-11,560	-98,746
	2020	-84,633	-10,479	-95,112
Depreciation and amortization	2021	-6,467	-1,661	-8,128
	2020	-6,533	-1,652	-8,185
Loan loss provisions and impairment of financial assets	2021	-12,920	-2,376	-15,296
	2020	-31,553	-9,890	-41,443
Impairment of non-financial assets	2021	0	-259	-259
	2020	0	-2,808	-2,808
Result from equity consolidation	2021	529	0	529
	2020	449	0	449
Earnings before taxes	2021	83,349	10,329	93,678
	2020	45,483	3,342	48,825
Assets	2021	13,765,632	1,860,481	15,626,113
	2020	13,539,408	1,757,360	15,296,768
Liabilities and shareholders’ equity	2021	15,318,798	307,315	15,626,113
	2020	14,867,194	429,574	15,296,768
Liabilities	2021	14,179,450	156,273	14,335,723
	2020	13,783,361	280,175	14,063,536

Switzerland, Italy and Other foreign countries are counted as third countries.

F. SPECIAL DISCLOSURES ON FINANCIAL INSTRUMENTS

(55) EARNINGS BY MEASUREMENT CATEGORY

Result of financial assets

TEUR 2020	HA	NON-SPPI	FVO	AC	Total assets
Interest income	45,735	13,315	1,936	197,377	258,363
Interest expenses	0	0	0	-6,629	-6,629
Net interest income	45,735	13,315	1,936	190,748	251,734
Dividend earnings	2	686	0	0	688
Additions to loan loss provisions	0	0	0	-49,701	-49,701
Reversal of loan loss provisions	0	0	0	21,954	21,954
Write-ups	29,619	0	0	0	29,619
Depreciation	0	0	0	-32,901	-32,901
Realised gains	826	15,848	2,024	1,892	20,590
Realised losses	-851	-5,988	-6,738	-424	-14,001
Comprehensive income	75,331	23,861	-2,778	131,568	227,982

TEUR 2021	HA	NON-SPPI	FVO	AC	Total assets
Interest income	47,189	13,676	1,935	185,476	248,276
Interest expenses	0	0	0	-7,830	-7,830
Net interest income	47,189	13,676	1,935	177,646	240,446
Dividend earnings	0	794	0	0	794
Additions to loan loss provisions	0	0	0	-35,914	-35,914
Reversal of loan loss provisions	0	0	0	35,296	35,296
Write-ups	97,511	2,028	1,156	15	100,710
Depreciation	0	-20,316	-15,620	-95,036	-130,972
Realised gains	762	13	133	885	1,793
Realised losses	-3,711	-68	-287	-254	-4,320
Comprehensive income	141,751	-3,873	-12,683	82,638	207,833

Result of financial liabilities

TEUR 2020	HP	LFVO	LAC	Total assets
Interest income	0	0	12,217	12,217
Interest expenses	-30,696	-4,271	-54,824	-89,791
Net interest income	-30,696	-4,271	-42,607	-77,574
Write-ups	0	0	45,801	45,801
Depreciation	-77,037	0	0	-77,037
Realised gains	32	30,653	99	30,784
Realised losses	0	-9,522	-49	-9,571
Comprehensive income	-107,701	16,860	3,244	-87,597
Measurement	0	-1,357	0	-1,357

TEUR 2021	HP	LFVO	LAC	Total assets
Interest income	0	0	43,125	43,125
Interest expenses	-34,044	-2,675	-50,791	-87,510
Net interest income	-34,044	-2,675	-7,666	-44,385
Write-ups	0	29,936	121,989	151,925
Depreciation	-124,178	-420	-2	-124,600
Realised gains	-816	1,003	1,471	1,658
Realised losses	0	-16	-1,602	-1,618
Comprehensive income	-159,038	27,828	114,190	-17,020
Measurement	0	-2,742	0	-2,742

(56) DISCLOSURES ON FAIR VALUE

TEUR	Notes	31.12.2021 Fair Value	31.12.2021 Carrying amount	31.12.2020 Fair Value	31.12.2020 Carrying amount
Trading assets	(19)	86,610	86,610	122,536	122,536
Financial assets at fair value (non-SPPI)	(20)	702,251	702,251	750,899	750,899
Financial assets at fair value (option)	(21)	301,578	301,578	333,857	333,857
Financial assets at amortized cost	(23)	13,167,351	12,390,301	13,652,533	12,332,201
Positive market values of hedges	(24)	119,578	119,578	191,377	191,377
Affiliates		968	968	968	968
Assets					
Trading liabilities	(33)	105,699	105,699	117,353	117,353
Financial liabilities at fair value (option)	(34)	671,743	671,743	803,599	803,599
Financial liabilities at amortized cost	(35)	13,420,495	13,298,923	12,958,013	12,874,124
Negative market values of hedges	(36)	137,205	137,205	163,875	163,875
Liabilities					

In the case of financial assets at amortized cost, the fair value of the fixed-interest transactions - provided they are loans and credits - was determined on the basis of the expected future cash flows taking into account the current market interest rates. In the case of bonds, the fair value was determined on the basis of available market prices and quotes. If no reliable market price was available for an asset as of the reporting date, the fair value was determined on the basis of market prices of similar financial instruments with comparable yields, credit risks and maturities.

For financial liabilities at amortized cost, the repayment amount recognised for deposits without agreed maturity and variable interest rates largely also corresponds to the current market value. The fair value of fixed-interest positions was determined on the basis discounted cash flows. The fair value of bonds was recognised on the basis of available market prices and quotes. If no market prices were available for this category, the fair value was measured on the basis of discounted future cash flows taking current market interest rates and credit spreads into account.

To the extent available, the fair values reported in the financial statements were determined exclusively using measurement techniques based on prices of similar instruments in observable market transactions.

Fair value hierarchy for financial instruments not recognised at fair value (at amortized cost)

TEUR 31.12.2020	Level 1	Level 2	Level 3	Total
Financial assets at amortized cost	2,623,616	25,363	11,003,554	13,652,533
Financial liabilities at amortized cost	3,379,258	51,887	9,526,868	12,958,013

TEUR 31.12.2021	Level 1	Level 2	Level 3	Total
Financial assets at amortized cost	2,420,776	49,774	10,696,801	13,167,351
Financial liabilities at amortized cost	3,720,453	53,535	9,646,507	13,420,495

The measurement techniques for financial instruments not carried at fair value do not usually differ from those use for financial instruments that are carried at fair value. The measurement techniques used are described in more detail in note (3c). Changes and enhancements of measurement techniques are also outlined there.

Fair value hierarchy for financial instruments recognised at fair value

TEUR 31.12.2020	Level 1	Level 2	Level 3	Total
Trading assets	136	78,651	43,749	122,536
Financial assets at fair value (non-SPPI)	73,133	69,066	608,700	750,899
Financial assets at fair value (option)	17,123	42,431	274,303	333,857
Positive market values of hedges	0	182,990	8,387	191,377
Affiliates	0	0	968	968
Assets measured at fair value	**90,392**	**373,138**	**936,107**	**1,399,637**
Reclassification of assets from level 2 and 3 to level 1	15,013	-15,013	0	0
Reclassification of assets from level 1 and 3 to Level 2	0	60	-60	0
Trading liabilities	0	85,206	32,147	117,353
Financial liabilities at fair value (option)	0	253,988	549,611	803,599
Negative market values of hedges	0	121,992	41,883	163,875
Liabilities measured at fair value	**0**	**461,186**	**623,641**	**1,084,827**
Reclassification of liabilities from level 2 and 3 to Level 1	0	0	0	0
Reclassification of liabilities from level 1 and 3 to Level 2	0	14,466	-14,466	0

TEUR 31.12.2021	Level 1	Level 2	Level 3	Total
Trading assets	160	53,000	33,450	86,610
Financial assets at fair value (non-SPPI)	88,306	77,697	536,248	702,251
Financial assets at fair value (option)	17,670	42,302	241,606	301,578
Positive market values of hedges	0	92,759	26,819	119,578
Affiliates	0	0	968	968
Assets measured at fair value	**106,136**	**265,758**	**839,091**	**1,210,985**
Reclassification of assets from level 2 and 3 to level 1	0	0	0	0
Reclassification of assets from level 1 and 3 to Level 2	0	0	0	0
Trading liabilities	0	71,681	34,018	105,699
Financial liabilities at fair value (option)	0	197,277	474,466	671,743
Negative market values of hedges	0	82,931	54,274	137,205
Liabilities measured at fair value	**0**	**351,889**	**562,758**	**914,647**
Reclassification of liabilities from level 2 and 3 to Level 1	0	0	0	0
Reclassification of liabilities from level 1 and 3 to Level 2	0	0	0	0

In the case of financial assets and liabilities recognised in the financial statements on a recurring basis, the Group determines whether transfers have taken place between hierarchy levels by examining their classification – based on the input parameter of the lowest level that is essential for fair value measurement – at the end of each reporting period. To do so, the Group uses a decision tree defined in the internal measurement guidelines.

The Group has a valuation committee for financial instruments. This committee specifies guidelines and procedures for recurring and non-recurring fair value measurements. The Head of Asset and Liability Management, the Head of Group Risk Controlling, the Head of Debt Capital Markets and a financial mathematician belong to the valuation committee for financial instruments. Once a year, the valuation committee examines the performance of financial instruments that should be measured in accordance with the Group's accounting policies. The valuation committee reviews the key input factors that were applied during the last measurement by comparing the results of the measurement calculations with external sources in order to assess whether the internal input parameters or changes need to be implemented. The valuation committee will decide to adjust the internal input parameters if this is more in line with the aim of measuring financial instruments as objectively as possible.

The reclassifications in Level 1 and Level 2 described in the tables and text below are shown in the previous tables, while reclassifications in Level 3 are shown in the changes in financial instruments table in Level 3.

Reclassification of assets

In the reporting year and in the previous year, there were no reclassifications of assets from Level 1 to Level 2, from Level 1 to Level 3 or from Level 3 to Level 1.

From Level 2 to Level 1

TEUR	31.12.2021 Quantity	31.12.2021 Book value	31.12.2021 Book value Previous year	31.12.2020 Quantity	31.12.2020 Book value	31.12.2020 Book value Previous year
From Level 2 to Level 1	0	0	0	2	15,013	15,089
Financial assets at fair value (Non-SPPI)	0	0	0	2	15,013	15,089

Instead of a derived market valuation, an available OTC secondary market source from Bloomberg was used to measure financial instruments in the non-SPPI category in the previous year.

From Level 2 to Level 3

TEUR	31.12.2021 Quantity	31.12.2021 Book value	31.12.2021 Book value Previous year	31.12.2020 Quantity	31.12.2020 Book value	31.12.2020 Book value Previous year
From Level 2 to Level 3	1	296	255	7	11,084	10,148
Trading assets	1	296	255	4	5,206	5,029
Positive market values from hedging transactions	0	0	0	3	5,878	5,119

As no observable credit spreads were available on the market for the derivatives in the trading assets and positive market values from hedging transactions categories, the valuation was carried out on the basis of an internal valuation model. This applies to the current year as well as the previous year.

From Level 3 to Level 2

TEUR	31.12.2021 Quantity	31.12.2021 Book value	31.12.2021 Book value Previous year	31.12.2020 Quantity	31.12.2020 Book value	31.12.2020 Book value Previous year
From Level 3 to Level 2	0	0	0	1	60	35
Trading assets	0	0	0	1	60	35

No relevant input factors observable on the market could be used for a derivative in the category of trading assets in the reporting year.

Reclassification of liabilities

In the reporting year and in the previous year, there were no reclassifications of liabilities from Level 1 to Level 2, from Level 1 to Level 3, from Level 2 to Level 1 or from Level 3 to Level 1.

From Level 2 to Level 3

TEUR	31.12.2021 Quantity	31.12.2021 Book value	31.12.2021 Book value Previous year	31.12.2020 Quantity	31.12.2020 Book value	31.12.2020 Book value Previous year
From Level 2 to Level 3	14	15,442	18,706	12	30,943	35,083
Trading liabilities	1	918	1,147	5	23,634	25,562
Financial liabilities at fair value (option)	1	2,947	3,079	0	0	0
Negative market values from hedging transactions	12	11,577	14,480	7	7,309	9,521

The reclassified derivatives in the categories trading liabilities and negative market values from hedging transactions were valued in the current year as well as in the previous year on the basis of an internal valuation model, as no credit spreads were available on the market. The reclassification of the LFVO issue was necessary because no observable input factors were available on the market and therefore the valuation was based on an internal valuation model.

From Level 3 to Level 2

TEUR	31.12.2021 Quantity	31.12.2021 Book value	31.12.2021 Book value Previous year	31.12.2020 Quantity	31.12.2020 Book value	31.12.2020 Book value Previous year
From Level 3 to Level 2	0	0	0	3	14,466	14,031
Financial liabilities at fair value (option).	0	0	0	3	14,466	14,031

Input factors observable on the market could be used for the issues in the LFVO category in the previous year, so the measurement is based on comparable instruments and market data.

Fair value hierarchy for financial assets and liabilities - breakdown by class

TEUR 31.12.2020	Level 1	Level 2	Level 3	Total
Derivatives	0	78,651	43,749	122,400
Equity instruments	136	0	0	136
Trading assets	136	78,651	43,749	122,536
Equity instruments	0	0	23,897	23,897
Debt securities	73,133	69,066	25,151	167,350
Loans and advances	0	0	559,652	559,652
Financial assets at fair value (non-SPPI)	73,133	69,066	608,700	750,899
Debt securities	17,123	42,431	0	59,554
Loans and advances	0	0	274,303	274,303
Financial assets at fair value (option)	17,123	42,431	274,303	333,857
Positive market values of hedges	0	182,990	8,387	191,377
Affiliates	0	0	968	968
ASSETS	90,392	373,138	936,107	1,399,637
Derivatives	0	85,206	32,147	117,353
Trading liabilites	0	85,206	32,147	117,353
Deposits	0	0	140,280	140,280
Debt securities issued	0	253,988	409,331	663,319
Financial liabilities at fair value (option)	0	253,988	549,611	803,599
Negative markt values of hedges	0	121,992	41,883	163,875
LIABILITIES	0	461,186	623,641	1,084,827

TEUR 31.12.2021	Level 1	Level 2	Level 3	Total
Derivatives	0	53,000	33,450	86,450
Equity instruments	160	0	0	160
Trading assets	160	53,000	33,450	86,610
Equity instruments	0	0	12,729	12,729
Debt securities	88,306	77,697	25,231	191,234
Loans and advances	0	0	498,288	498,288
Financial assets at fair value (non-SPPI)	88,306	77,697	536,248	702,251
Debt securities	17,670	42,302	0	59,972
Loans and advances	0	0	241,606	241,606
Financial assets at fair value (option)	17,670	42,302	241,606	301,578
Positive market values of hedges	0	92,759	26,819	119,578
Affiliates	0	0	968	968
ASSETS	106,136	265,758	839,091	1,210,985
Derivatives	0	71,681	34,018	105,699
Trading liabilites	0	71,681	34,018	105,699
Deposits	0	0	134,991	134,991
Debt securities issued	0	197,277	339,475	536,752
Financial liabilities at fair value (option)	0	197,277	474,466	671,743
Negative markt values of hedges	0	82,931	54,274	137,205
LIABILITIES	0	351,889	562,758	914,647

Changes in Level 3 financial instruments

TEUR 2020	Opening balance	Purchases/ Issues	Sales/ Redemp-tions	Additions from Level 1 and Level 2	Reclassifica-tion to Level 1 and Level 2	Changes in Fair values	Closing balance
Trading assets	56,479	0	0	5,206	-60	-17,876	43,749
Financial assets at fair value (non-SPPI)	609,153	55,079	-97,644	0	0	42,112	608,700
Financial assets at fair value (option)	298,861	0	0	0	0	-24,558	274,303
Positive market values of hedges	4,726	0	0	5,878	0	-2,217	8,387
Affiliates	1,534	0	-6	0	0	-560	968
Assets measured at fair value in level 3	970,753	55,079	-97,650	11,084	-60	-3,099	936,107
Trading liabilites	8,587	0	0	23,634	0	-74	32,147
Financial liabilities at fair value (option)	625,609	9,888	-69,840	0	-14,466	-1,580	549,611
Negative markt values of hedges	12,668	0	0	7,309	0	21,906	41,883
Liabilities measured at fair value in level 3	646,864	9,888	-69,840	30,943	-14,466	20,252	623,641

TEUR 2021	Opening balance	Purchases/ Issues	Sales/ Redemp-tions	Additions from Level 1 and Level 2	Reclassifica-tion to Level 1 and Level 2	Changes in Fair values	Closing balance
Trading assets	43,749	0	0	296	0	-10,595	33,450
Financial assets at fair value (non-SPPI)	608,700	73,474	-132,078	0	0	-13,848	536,248
Financial assets at fair value (option)	274,303	2,387	-700	0	0	-34,384	241,606
Positive market values of hedges	8,387	0	0	0	0	18,432	26,819
Affiliates	968	0	0	0	0	0	968
Assets measured at fair value in level 3	936,107	75,861	-132,778	296	0	-40,395	839,091
Trading liabilites	32,147	0	0	918	0	953	34,018
Financial liabilities at fair value (option)	549,611	0	-59,855	2,947	0	-18,237	474,466
Negative markt values of hedges	41,883	0	0	11,577	0	814	54,274
Liabilities measured at fair value in level 3	623,641	0	-59,855	15,442	0	-16,470	562,758

The changes in fair value given relate only to financial instruments that were still held in Level 3 at the end of the reporting period. The changes in fair value shown in the tables above represent gains/losses of financial instruments that were allocated to Level 3 at the end of the year. The fair value changes are recognised in the result from financial instruments at fair value.

Changes in the fair value in the financial liabilities at fair value (option) category amount to TEUR -18,237 (2020: TEUR -1,580), of which TEUR 20,264 (2020: TEUR 1,428) was recognised under the net result from financial instruments at fair value and TEUR -2,027 (2020: TEUR 152) in other comprehensive income recognised under measurement of own credit risk for liabilities at fair value.

Disclosures regarding sensitivity of internal input factors

TEUR	Positive fair value change with alternative measurement paramenters		Negative fair value change with alternative measurement paramenters	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Derivatives	56	113	-82	-165
Financial assets at fair value (non-SPPI)	3,921	2,851	-5,131	-3,942
of which issues	447	589	-412	-752
of which loans and advances	3,474	2,262	-4,719	-3,190
Financial assets at fair value (option)	10	10	-17	-18
of which loans and advances	10	10	-17	-18
Financial liabilities at fair value (option)	-2,465	-3,008	2,465	3,008
of which debt securities issued	-2,077	-2,474	2,077	2,474
of which deposits	-388	-534	388	534
Total	**1,522**	**-34**	**-2,765**	**-1,117**

The internal input factor that is relevant to financial assets is derived by calculating the credit risk, expressed as credit spread. If CDS spreads are available for a counterparty, the credit risk is measured based on these available input factors. However, if a CDS spread is not observable, the credit risk is measured using the internally calculated default probability combined with the internal rating. In the case of the above sensitivity, the internal ratings were each shifted by one level in parallel.

The internal input factor that is relevant to financial liabilities is derived by determining the current issue level of private placements compared to public placements.

In the case of the above sensitivity, the recognised credit spreads were each shifted in parallel by 10 basis points.

Based on the collateral management with institutional counterparties, two derivative hedging instruments in Level 3 were measured not by using the internal valuation models, but instead by taking over the counterparty's market values. If the internal valuation model had been used here, this would have resulted in a change in market values of TEUR 296 (2020: TEUR 203). This valuation was also applied to the underlying transactions, resulting in an opposing change in the valuation of TEUR -318 (2020: TEUR -264).

(57) DISCLOSURES ON OFFSETTING FINANCIAL INSTRUMENTS

TEUR 31.12.2020	Financial instruments (gross)	Financial Instruments (net)	Effect of offsetting master agreement	Collateral	Net Amount
Positive market values of derivative financial instruments	313,777	313,777	-180,651	-107,340	25,786
Total assets	**313,777**	**313,777**	**-180,651**	**-107,340**	**25,786**
Negative market values of derivative financial instruments	281,228	281,228	-180,651	-136,803	-36,226
Total liabilities	**281,228**	**281,228**	**-180,651**	**-136,803**	**-36,226**

TEUR 31.12.2021	Financial instruments (gross)	Financial Instruments (net)	Effect of offsetting master agreement	Collateral	Net Amount
Positive market values of derivative financial instruments	206,028	206,028	-142,327	-53,200	10,502
Total assets	**206,028**	**206,028**	**-142,327**	**-53,200**	**10,502**
Negative market values of derivative financial instruments	242,904	242,904	-142,327	-160,066	-59,488
Total liabilities	**242,904**	**242,904**	**-142,327**	**-160,066**	**-59,488**

(58) IMPAIRMENT ON FINANCIAL INSTRUMENTS

The reporting for POCI was changed in 2021. Previously, the values for POCI were included in Stages 1 to 3. From 2021, POCI will be reported in separate rows and columns in the tables below.

Amount of impairment and provisions per category and stage

TEUR 31.12.2020	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances	19,703	30,596	68,029	-	118,328
Debt securities	377	1,024	1,020	-	2,421
Credit commitments, financial guarantees and other commitments	2,911	1,243	12,224	-	16,378
Impairment and provisions	**22,991**	**32,863**	**81,273**	**-**	**137,127**

TEUR 31.12.2021	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances	14,860	27,086	70,273	1,580	113,799
Debt securities	318	898	1,020	0	2,236
Credit commitments, financial guarantees and other commitments	2,603	1,191	24,292	2	28,088
Impairment and provisions	**17,781**	**29,175**	**95,585**	**1,582**	**144,123**

Amount of maximum default risk for all financial instruments

TEUR 31.12.2020	Gross Carrying amount	Commit-ments and guarantees	Maximum default risk
Debt securities at fair value (non-SPPI)	167,350	0	167,350
Debt securities at fair value (option)	59,554	0	59,554
Debt securities at amortized cost	2,598,679	0	2,598,679
Debt securities	**2,825,583**	**0**	**2,825,583**
Loans and advances cash reserve	1,315,467	0	1,315,467
Loans and advances at fair value (non-SPPI)	559,652	47,790	607,442
Loans and advances at fair value (option)	274,303	0	274,303
Loans and advances at amortized cost	9,733,522	2,125,084	11,858,606
Loans and advances	**11,882,944**	**2,172,874**	**14,055,818**
Trading assets derivatives	122,400	0	122,400
Positive market values of hedges	191,377	0	191,377
Derivatives	**313,777**	**0**	**313,777**
Equity instruments trading assets	136	0	136
Equity instruments at fair value (non-SPPI)	23,897	0	23,897
Equity instruments	**24,033**	**0**	**24,033**
Sureties and guarantees	**0**	**572,268**	**572,268**
Overall exposure	**15,046,337**	**2,745,142**	**17,791,479**

TEUR 31.12.2021	Gross Carrying amount	Commit-ments and guarantees	Maximum default risk
Debt securities at fair value (non-SPPI)	191,234	0	191,234
Debt securities at fair value (option)	59,972	0	59,972
Debt securities at amortized cost	2,436,566	0	2,436,566
Debt securities	**2,687,772**	**0**	**2,687,772**
Loans and advances cash reserve	1,783,957	0	1,783,957
Loans and advances at fair value (non-SPPI)	498,288	22,830	521,118
Loans and advances at fair value (option)	241,606	0	241,606
Loans and advances at amortized cost	9,953,735	2,087,285	12,041,020
Loans and advances	**12,477,586**	**2,110,115**	**14,587,701**
Trading assets derivatives	86,450	0	86,450
Positive market values of hedges	119,578	0	119,578
Derivatives	**206,028**	**0**	**206,028**
Equity instruments trading assets	160	0	160
Equity instruments at fair value (non-SPPI)	12,729	0	12,729
Equity instruments	**12,889**	**0**	**12,889**
Sureties and guarantees	**0**	**674,639**	**674,639**
Overall exposure	**15,384,275**	**2,784,754**	**18,169,029**

Default risk of financial instruments subject to the provisions of impairment

TEUR 31.12.2020	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Not rated	Total
Stage I - carrying amount	2,575,025	3,042,966	5,025,636	135,200	0	36,838	10,815,665
Stage I - off-balance-sheet transactions	326,203	554,629	1,472,654	28,064	0	0	2,381,550
Stage I - default risk	**2,901,228**	**3,597,595**	**6,498,290**	**163,264**	**0**	**36,838**	**13,197,215**
Stage II - carrying amount	11,821	61,879	1,085,392	354,813	0	49,920	1,563,825
Stage II - off-balance-sheet transactions	3,380	39,684	284,980	16,720	0	1,174	345,938
Stage II - default risk	**15,201**	**101,563**	**1,370,372**	**371,533**	**0**	**51,094**	**1,909,763**
Stage III - carrying amount	0	0	315	115	144,966	1,013	146,409
Stage III - off-balance-sheet transactions	0	0	0	0	33,855	0	33,855
Stage III - default risk	**0**	**0**	**315**	**115**	**178,821**	**1,013**	**180,264**
POCI - carrying amount	0	21	1,459	245	8,504	0	10,229
POCI - off-balance-sheet transactions	0	0	32	0	3,976	0	4,008
POCI - default risk	**0**	**21**	**1,491**	**245**	**12,480**	**0**	**14,237**
Total - carrying amount	**2,586,846**	**3,104,845**	**6,111,343**	**490,128**	**144,966**	**87,771**	**12,525,899**
Total - off-balance-sheet transactions	**329,583**	**594,313**	**1,757,634**	**44,784**	**33,855**	**1,174**	**2,761,343**
Total - default risk	**2,916,429**	**3,699,158**	**7,868,977**	**534,912**	**178,821**	**88,945**	**15,287,242**

TEUR 31.12.2021	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Not rated	Total
Stage I - carrying amount	3,972,610	3,470,122	5,006,284	77,157	0	24,086	12,550,259
Stage I - off-balance-sheet transactions	431,418	758,321	1,262,347	20,555	0	28	2,472,669
Stage I - default risk	**4,404,028**	**4,228,443**	**6,268,631**	**97,712**	**0**	**24,114**	**15,022,928**
Stage II - carrying amount	34,288	106,761	985,103	345,088	1,991	20,313	1,493,544
Stage II - off-balance-sheet transactions	1,961	48,011	194,671	23,935	0	3,055	271,633
Stage II - default risk	**36,249**	**154,772**	**1,179,774**	**369,023**	**1,991**	**23,368**	**1,765,177**
Stage III - carrying amount	0	0	9,732	3,841	111,098	0	124,671
Stage III - off-balance-sheet transactions	0	0	0	0	40,379	0	40,379
Stage III - default risk	**0**	**0**	**9,732**	**3,841**	**151,477**	**0**	**165,050**
POCI - carrying amount	0	480	430	33	4,841	0	5,784
POCI - off-balance-sheet transactions	0	30	1	0	41	0	72
POCI - default risk	**0**	**510**	**431**	**33**	**4,882**	**0**	**5,856**
Total - carrying amount	**4,006,898**	**3,577,363**	**6,001,549**	**426,119**	**117,930**	**44,399**	**14,174,258**
Total - off-balance-sheet transactions	**433,379**	**806,362**	**1,457,019**	**44,490**	**40,420**	**3,083**	**2,784,753**
Total - default risk	**4,440,277**	**4,383,725**	**7,458,568**	**470,609**	**158,350**	**47,482**	**16,959,011**

Information on the default risk of impaired financial instruments

TEUR 31.12.2020	Gross Carrying amount	Valuation allowance	Other Collateral	Received guarantees
Debt securities	1,020	1,020	0	0
Loans and advances	225,389	68,158	107,908	7.364
Measured at amortized cost	226,409	69,178	107,908	7,364
Loans and advances	3,981	2,909	1,072	0
Measured at fair value	3,981	2,909	1,072	0

TEUR 31.12.2021	Gross Carrying amount	Valuation allowance	Other Collateral	Received guarantees
Debt securities	1,020	1,020	0	0
Loans and advances	204,285	72,186	79,291	11.152
Measured at amortized cost	205,305	73,206	79,291	11,152
Loans and advances	26,392	3,184	17,614	0
Measured at fair value	26,392	3,184	17,614	0

Financial liabilities of TEUR 3,619 (2020: TEUR 243) were written off during the reporting period and are still subject to enforcement activity.

Changes in valuation allowances per item and class

TEUR 2020	Opening balance	Additions	Utilisation	Reversals	Unwinding	Stage Transfer	Other Changes	Closing balance
Valuation allowances cash reserve - Stage 1	0	4	0	0	0	0	0	4
Valuation allowances cash reserve	0	4	0	0	0	0	0	4
Valuation allowances debt securities AC - Stage 1	271	194	0	-86	0	0	-2	377
Valuation allowances debt securities AC - Stage 2	1,560	0	0	-536	0	0	0	1,024
Valuation allowances debt securities AC - Stage 3	1,020	0	0	0	0	0	0	1,020
Valuation allowances debt securities AC	2,851	194	0	-622	0	0	-2	2,421
Valuation allowances loans and advances AC - Stage 1	13,973	11,861	0	-2,966	0	-3,171	2	19,699
Valuation allowances loans and advances AC - Stage 2	15,125	19,817	0	-5,650	0	1,306	-2	30,596
Valuation allowances loans and advances AC - Stage 3	68,985	17,368	-9,032	-12,652	1,494	1,865	1	68,029
Valuation allowances loans and advances AC	98,083	49,046	-9,032	-21,268	1,494	0	1	118,324
Valuation allowances debt securities and loans and advances	100,934	49,240	-9,032	-21,890	1,494	0	-1	120,745
Valuation allowances corporate customers	58,169	34,587	-5,139	-13,985	1,075	0	5	74,712
Valuation allowances private customers	11,064	4,084	-773	-3,722	64	0	8	10,725
Valuation allowances financial markets	2,251	416	0	-989	0	0	-7	1,671
Valuation allowances Corporate Center	29,450	10,153	-3,120	-3,194	355	0	-7	33,637

TEUR 2021	Opening balance	Additions	Utilisation	Reversals	Unwinding	Stage Transfer	Other Changes	Closing balance
Valuation allowances cash reserve - Stage 1	4	1	0	0	0	0	0	5
Valuation allowances cash reserve	**4**	**1**	**0**	**0**	**0**	**0**	**0**	**5**
Valuation allowances debt securities AC - Stage 1	377	55	0	-116	0	0	2	318
Valuation allowances debt securities AC - Stage 2	1,024	0	0	-126	0	0	0	898
Valuation allowances debt securities AC - Stage 3	1,020	0	0	0	0	0	0	1,020
Valuation allowances debt securities AC	**2,421**	**55**	**0**	**-242**	**0**	**0**	**2**	**2,236**
Valuation allowances loans and advances AC - Stage 1	19,699	5,410	0	-8,797	0	-1,507	50	14,855
Valuation allowances loans and advances AC - Stage 2	30,596	10,011	0	-13,689	0	80	88	27,086
Valuation allowances loans and advances AC - Stage 3	68,029	18,823	-7,314	-12,522	1,671	1,427	159	70,273
Valuation allowances loans and advances AC - POCI	0	1,889	0	-318	9	0	0	1,580
Valuation allowances loans and advances AC	**118,324**	**36,133**	**-7,314**	**-35,326**	**1,680**	**0**	**297**	**113,794**
Valuation allowances debt securities and loans and advances	**120,745**	**36,188**	**-7,314**	**-35,568**	**1,680**	**0**	**299**	**116,030**
Valuation allowances corporate customers	74,712	27,188	-2,420	-25,404	1,358	0	262	75,696
Valuation allowances private customers	10,725	3,460	-2,161	-3,107	40	0	41	8,998
Valuation allowances financial markets	1,671	186	0	-399	0	0	3	1,461
Valuation allowances Corporate Center	33,637	5,354	-2,733	-6,658	282	0	-7	29,875

(59) FINANCIAL INSTRUMENTS BY CATEGORY

Financial instruments are presented according to measurement category in the corresponding notes to the balance sheet items, as the measurement categories as per IAS 9 are already shown in detail on the balance sheet.

G. FINANCIAL RISKS AND RISK MANAGEMENT

The full disclosure on the organisational structure, risk management and the risk capital situation according to CRR are posted on the internet at www.hypovbg.at.

(60) OVERALL RISK MANAGEMENT

The Group's operations involve the following risks:

- Credit risk and counterparty default risk: This includes the counterparty default risk, as well as the risk of deteriorating credit standing. Risks may also result from the use of credit risk mitigation methods, currency or concentration risks in lending business and counterparty default risks. Risks can also arise in connection with securitisation activities.
- Market risks: The common characteristic of these risks is that they result from price changes in money and capital markets. Market price risks are categorised as interest rate, spread change, stock price, foreign currency or commodity risks.
- Liquidity risk: Liquidity risks can be broken down into maturity and retrieval risks, structural liquidity risk (rollover financing risk) and market liquidity risk. Maturity risk is an unplanned extension of maturities in the lending business. Retrieval risk is the risk that credit commitments are unexpectedly utilised or deposits withdrawn. As a result, a bank may no longer be able to fully meet its payment obligations. Structural liquidity risk arises from the possibility that the required roll-over financing may only be available at less favourable conditions, or not at all. Market liquidity risk is in evidence when positions can only be sold immediately by taking a loss.
- Operational risk: This includes the risk of direct or indirect losses caused by human error, process deficits, technological failure, or external influence. Operational risks also include legal risk.
- Shareholder risk: This covers items including private equity, mezzanine financing, subordinated financing and investments in funds with these components. This also includes subordinated banking securities.
- Real estate risk: This refers to the risk of fluctuations in the value of property owned by the Group. This especially includes properties which serve as collateral (including leased assets) and cannot be sold promptly to third parties as part of realisation ("foreclosed assets"). This does not include owner-occupied properties.
- Risk of excessive indebtedness: This means the risk of a total capital ratio that is too low.
- Money laundering and financing of terrorism: The Group continues to counter this risk by all countermeasures provided.
- Macroeconomic risk: macroeconomic risks are potential losses due to exposure to macroeconomic risk factors.
- Model risks: model risk is the risk of significantly underestimating the capital backing for material risks in the Capital Adequacy Process as a result of incorrect input parameters, incorrect assumptions, incorrect models or incorrect application of such models.
- Other risks: These include above all those types of risks for which only rudimentary or no quantification methods exist. Specifically, strategic, reputation, equity, performance and business risks and risks from repayment vehicles in the lending business may be classified as other risks.

The Group manages these risks in order to limit the overall bank risk. The Managing Board is responsible for the overall risk management of the Group. Accordingly, it approves the principles of risk control and the risk measurement procedures. Additionally, it determines the willingness to take risks and defines limits for all relevant types of risk based on risk-absorbing capacity.

The Group regularly reviews the effects of economic and market developments on its income statement and net assets.

The overall risk management of Hypo Vorarlberg is based on a strict separation between Front Office and Back Office. The risk management functions of Hypo Vorarlberg are bundled under the responsibility of the Managing Board member responsible for risk management. Risk controlling at Hypo Vorarlberg is developed and implemented by group risk controlling. This unit measures risks on a group level. The independent assessment and approval of credit applications is carried out by the credit management departments for corporate and private customers.

The Bank's risk situation and the Capital Adequacy Process are addressed by the Asset & Liability Management Committee (ALM). In this committee, the Managing Board decides on market risk measurement procedures, defines interfaces between Sales and Treasury with regard to the market interest rate method, and the level of market risk and liquidity limits. In addition to the Managing Board as a whole and Corporate and Private Customers Sales, Group Risk Controlling, Controlling, Strategic Bank Management and Treasury departments are also present at committee meetings.

The strategies, procedures and approaches adopted for the management of risks are documented in writing. The Group maintains a risk management manual and a credit manual, which are available to all employees. These manuals are updated on a regular basis. Additionally, the Bank has outlined all relevant work processes in written procedures that are likewise available to all employees.

Sustainability risks

The Bank is aware of the high significance of sustainability risks. In the past year, extensive efforts were made to develop a frame-work. Among other things, the FMA guidelines for handling sustain-ability risks of July 2020, the EBA report on the management and supervision of ESG risks of June 2021 and the SSM climate risk stress test were analysed.

The Bank strives to measure and limit sustainability risks. This means that negative effects potentially resulting from sustainability factors' current or expected effects on customers or loans must be measured and limited. This includes reputational risk. Sustainability in the "inside-out perspective" and the associated public image are therefore also indirectly relevant to risk.

The Bank is making efforts to limit risks in all three aspects (ecological, social and governance risks). With regard to risk measurement, the focus is currently on ecological risks – and here on climate risk – whereby both physical and transitory risks must be measured and limited.

When formulating the willingness to take sustainability risks, the Bank is aware of the problems associated with the measurement of these risks. Therefore, the requirements for the risk types are often qualitative. The Bank aims to supplement the qualitative requirements with quantitative requirements in the next planning cycles.

The requirements relate to differing time horizons:

- Operational: Short-term perspective for 1 year
- Tactical: Medium-term perspective up to 5 years
- Strategic: Long-term perspective - target conditions

When formulating the willingness to take risks, the Bank's business model and market areas are taken into account.

Social sustainability risks
Financing that can be linked to the violation of human rights, child labour, arms manufacturing or the like can give rise to reputational risks. The Bank proceeds carefully to limit this risk.

The Bank uses disqualifying criteria to ensure that new financing cannot be linked to the violation of human rights or similar issues. The disqualifying criteria are reanalysed for each planning cycle.

Sustainability risks from governance
Inadequate governance on the part of customers can lead to reputational risks for the Bank. Customers' potential governance problems are examined and assessed.

Ecological sustainability risks
The Bank formulations the following requirements for ecological risks:
- Plausible scenarios with physical climate risks, the occurrence of which is expected to be highly likely, should not result in a violation of the requirements in stress testing in the short term.
- Plausible scenarios with transitory climate risks, the occurrence of which is expected to be highly likely, should not result in erosion of the Bank's equity base in the long term. It should also be observed whether sustainability risks must be backed by equity in the future.

Plausible scenarios are derived from past experience or adopted from providers (e.g. Network for Greening the Financial System, NGFS). The effects of the scenarios are assessed qualitatively or quantitatively. The Bank is aware of the uncertainty of estimates for long periods.

The Group currently sees no indications that property, plant and equipment in accordance with IAS 16 and intangible assets in accordance with IAS 38 will be affected by climate change to such an extent that a risk will arise.

Sustainability risks in the COVID-19 pandemic
The EBA report cites the pandemic as an example of the interplay between environmental and social factors. The medium-term effects are difficult to assess. Due to the reduced economic activity and the associated decline in freight and passenger transport, CO_2 emissions have decreased. At the same time, company's revenues fell sharply. The containment measures are having social effects that vary according to income or country, for example. In the short term, there was an increase in unemployment figures. The Bank's workforce (like in many other businesses) was severely affected by the containment measures (distance working, team splitting).

The crisis affected and is affecting the Bank via a variety of transmission channels:
- It had to be assumed that the reduced economic activity would lead to a deterioration of many customers' credit rating and to an increase in defaults. This risk was significantly mitigated by government support measures.
- The uncertainty on the money and capital markets was palpable at the beginning of the crisis and made it difficult to raise capital. As it was not possible to raise capital as planned at the beginning of the crisis, the LCR fell. The risk was significantly reduced by the intervention of the ECB.
- Due to the very sharp decline in macroeconomic indicators, there was a risk that very high loan loss provisions would have had to have been recognised under IFRS 9 during in the crisis. The models for measuring expected losses usually depend on these indicators. The resulting procyclicality gave rise to the risk that banks would no longer be able to perform their function as capital providers during the crisis. The risk was mitigated by the intervention of supervisory authorities and standard-setting bodies.
- The organisation of distance working posed challenges for the Bank. Reduced and modified communication between the employees gave rise to an increased risk of misunderstandings and errors.

The Bank responded to the crisis with the available risk management tools:
- The central managing body during the crisis was and is the crisis team. The crisis team's governance ensured prompt reaction, clear communication and a uniform level of knowledge in the Bank.
- The expected credit deterioration in the portfolio was implemented via a rating strategy with flat-rate deductions per sector (see below). This ensured the consistent presentation of the effects in all downstream systems. Where necessary, the risk strategy is adapted to changing expectations.
- As a result of the IFRS models, the altered ratings in conjunction with the poorer macroeconomic indicators led to increased loan loss provisions for non-defaulted exposures. A balance had to be found between the results of the models and the Bank's expectations. The early recognition of loan loss provisions is intended to reduce the procyclicality during the crisis.
- Through participation in the ECB's medium-term refinancing operations, a very comfortable liquidity buffer was built up after the crisis broke out.

COVID-19 is significantly influencing the amount of anticipated loan loss provisions. The crisis is affecting customers' creditworthiness and the assessment of the macroeconomic development. Government support measures have a major influence on customers' creditworthiness and the development of the crisis.
To take account of the effects on customers' creditworthiness, a rating strategy for 2020 that builds on the OeNB analysis "Impact of the COVID-19 pandemic on Austrian companies by sector" was adopted in June 2020. Here, the sectors are divided into three categories depending on how heavily impacted they are: the most heavily impacted 15 sectors (particularly restaurants and hotels, tour operators, cultural and entertainment facilities, automotive manufacturers and suppliers, and retail), 48 less heavily impacted sectors, and the sectors where there was little impact. Based on simulations and expert estimates, it was decided to take account of the influence of COVID-19 with a downgrade of two notches for the most heavily impacted sectors and one notch for the less heavily impacted sectors when preparing the ratings. As of the end of 2020, around 84 % of customers that were affected by a potential downgrade like this had been assigned a new rating.

After the defaults in 2021 did not meet expectations (due among other things to the duration of the crisis and the extension of government support measures) and companies' balance sheets suffered less than expected, the rating strategy was adjusted in June 2021. New requirements were defined for balance sheets after 30 June 2020. It was assumed that the balance sheet submitted partially showed the economic impact of the pandemic, but this was also partially mitigated by government assistance. Double effects (poor figures due to COVID-19 and a too-high blanket downgrade in line with the previous rating strategy) on the customer rating were to be avoided.

The assumption that individual sectors are affected to varying degrees continues to apply. The sector classifications is still based on the above-mentioned OeNB analysis. However, certain reclassifications were made as they better reflect our past experience.

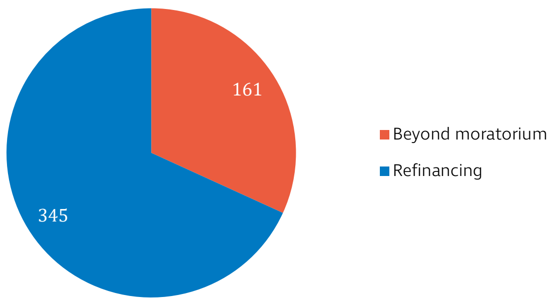
The sectors are still divided into three categories, whereas the influence of COVID-19 is only taken into account in the rating of customers in the most heavily impacted sectors with a downgrade of one notch.

There were a few exceptions to this basic assumption. Individual other assessments are to be the exception and only possible in particularly justified and numerically proven cases..

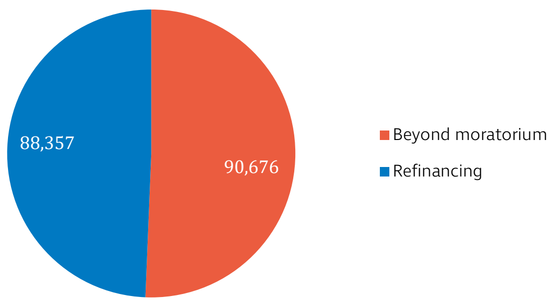
In the Private Customer segment, there will be no individual rating action for consumers; instead, customers will continue to be rerated on a quarterly basis in the behavioral rating, with the expectation in this regard that COVID-19-related deteriorations will also be taken into account accordingly.

As of the end of 2021, the following deferral measures or new financing had been granted in connection with COVID-19:

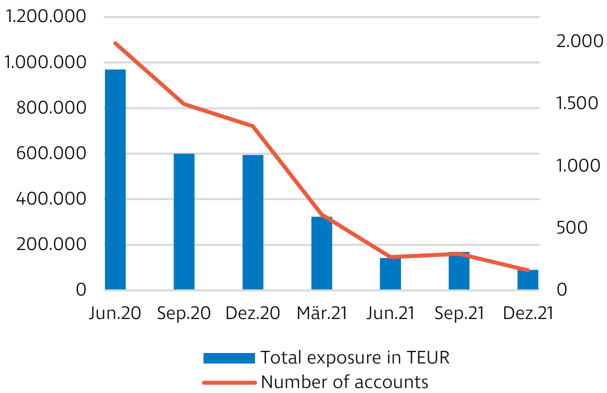
Number of measures



Volume of measures
in TEUR

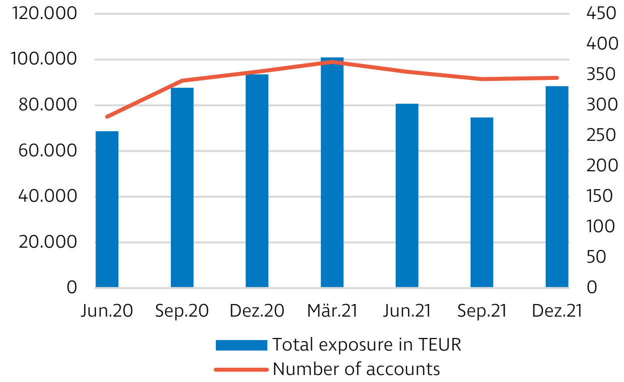


Deferrals over time



In addition, the Bank granted financing for "COVID-19 products". These are products that are fully or partially guaranteed by the Republic of Austria, the state of Vorarlberg or the Vorarlberg Chamber of Labour. The volume and number of financing commitments for such COVID-19 products developed as follows over the course of the year:

Products over time



Generally speaking, any request by a customer for a deferral or other form of accommodation for payment must be examined on a case-by-case basis. For this reason, each request for deferral in connection with a loan application has been examined individually at the Bank since the beginning of the pandemic already.

As part of this examination, it is determined whether the transaction in question represents a facilitation granted due to economic difficulties at the customer. If this is the case, then this transaction is classified as forbearance as defined in Article 47(b) CRR and is marked as such in the system.

Deferrals under the statutory moratorium were also granted on the basis of individual applications. These were not classified as forbearance (forbearance protection).

Regardless of whether or not the deferral measure was covered by a moratorium, a check as to whether the customer was unlikely to pay (UTP check) was always performed and if necessary the customer was classified as being in default as defined in Article 178 (3) d CRR. This also applies to all new requests for deferral measures to be granted or extended.

In the Corporate Customers segment, the principle of case-by-case examination still applies when extending deferrals or granting new deferrals. To assess whether a newly granted or extended deferral measure leads to a forbearance measure, the following guidelines have been set in the corporate customers segment:

There is no forbearance measure if one of the following points applies:

- The customer would be able to pay the instalments despite the COVID-19 crisis but is requesting a suspension of repayments because it wishes to build up/maintain liquidity reserves.
- Although the customer does not currently have the financial resources, it has a fundamentally viable business model that has been and still is significantly negatively impacted by the coronavirus. There must be a currently justified assumption that the company will probably not become insolvent with the requested suspension of repayments and other government assistance measures in the period up until the main effects of the pandemic are over (currently expected to be in mid-2021) and will be able to recover quickly after the pandemic is over.

In the private customers/small businesses segment, the statutory moratorium expired as at 31 January 2021. General forbearance protection therefore no longer applies to future deferral measures. The assessment as to whether a newly granted or extended deferral measure leads to a forbearance measure is therefore examined as part of an application according to the following criteria:

- A key factor when it comes to assessing whether an exemption from repayments represents a subjective facilitation is the question of customers' current and anticipated future economic situation and particularly their ability to meet existing loan commitments sustainably, taking account of the temporary deferral measures. In the case of employed persons, attention is generally focused on borrowers' current employment status (unrestricted continued employment, reduced working hours, already unemployed) and their employment prospects on the job market (sector, qualifications, mobility).

All customers, regardless of whether or not they are covered by the statutory moratorium, are generally subject to unrestricted use of all early warning and monitoring tools set up at the Bank (monitoring of arrears by early warning, event and recovery system, overdraft lists, dunning lists, performance rating).

Sensitivity analysis
The following section shows how the volume and the anticipated loan loss provisions in stages 1 and 2 would change if different PD curves were used. Three scenarios are applied:

- Main scenario
- Negative scenario
- Positive scenario

Sensitivities by stage – volume

TEUR 2021	Main scenario	Negative scenario	Positive scenario
Stage 1	20,846	-206,763	76,979
Stage 2	-20,846	206,763	-76,979

Sensitivities by stage – loan loss provisions

TEUR 2021	Main szenario	Negative scenario	Positive scenario
Stage 1	-18	1,261	-830
Stage 2	-293	3,477	-1,281

The volume in Stage 2 would increase by TEUR 206,763 in the negative scenario. The total risk provisions for Stage 1 and 2 would increase by TEUR 4,738. In the positive scenario, the volume in Stage 2 would decrease by TEUR 76,979 and the risk provisions for Stage 1 and 2 would decrease by TEUR 2,111.

Sensitivities by stage – volume

TEUR	Main scenario		Negative scenario		Positive scenario	
2021	Stage 1	Stage 2	Stage 1	Stage 1	Stage 2	Stage 1
Corporate customers	20,846	-20,846	-182,502	182,502	51,109	-51,109
Private customers	0	0	-24,261	24,261	25,870	-25,870
Financial institutes	0	0	0	0	0	0
States	0	0	0	0	0	0

Sensitivities by stage – loan loss provisions

TEUR	Main scenario		Negative scenario		Positive scenario	
2021	Stage 1	Stage 2	Stage 1	Stage 1	Stage 2	Stage 1
Corporate customers	-17	-290	453	3.034	-149	-946
Private customers	-1	-3	808	443	-681	-335
Financial institutes	0	0	0	0	0	0
States	0	0	0	0	0	0

Viewed by segment, the volume in the negative scenario increases primarily in the Corporate Customers segment (TEUR 182,502). The increase in risk provisions in this segment amounts to TEUR 3,487.

(61) MARKET RISK

The objective of the Group's Asset & Liability Management is the optimal management of market risks. The strict separation of trading units and risk control ensures the objective assessment of the risks incurred and the early detection of unfavourable developments. The risks are assessed on a daily basis by Group Risk Controlling, which reports the results of the analyses to the units responsible.

With a focus on better customer service the individual bank maintains a small trading portfolio within the meaning of Article 94 CRR.

Asset and liability management is controlled via a standard reference interest rate system using the market interest rate method. The reference interest rate set determines the distribution of interest income and expenses among branch offices and treasury. Fixed interest rates are therefore determined annually by the Managing Board as a central controlling instrument

Measurement of market risk is based on three methods, which are all calculated centrally for the individual bank:

- Value at Risk (VaR)
- Change in the present value of equity in stress tests

Simulations of structural contribution as part of scenario analysis (earnings perspective)

Value at risk indicates the maximum loss at a given probability and holding period. The Bank measures value at risk using SAP software and a historical simulation with the following parameters:

Historical simulation parameters	
Historical period	250 trading days
Holding period	10 trading days
Confidence level	99 %

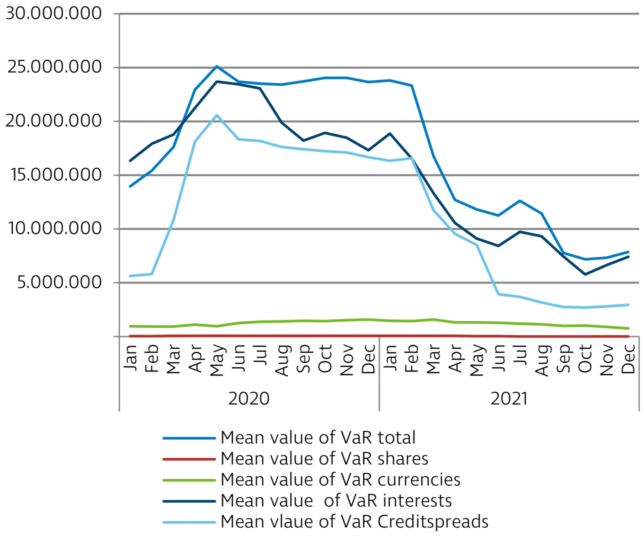
The VaR limit defines the maximum loss the Group is prepared to absorb under normal market conditions. The Managing Board defines the global VaR limit on an annual basis in line with the ICAAP. In addition, limits are defined for various yield curves, currency pairs, credit spread risks and equity position risks, for example.

The Group conducts stress tests in order to identify potential losses in the event of extreme market movements. The purpose of stress testing is to compensate for inadequacies of the value at risk concept. Stress test results for each risk type are added as absolute figures whether positive or negative to obtain an absolute worst case scenario. Stress test limits are derived from the Capital Adequacy Process calculation.

The Group uses risk-adjusted yield curves to calculate present value key figures. In addition to the present value key figures, the Group regularly carries out gap analyses to manage the fixed interest rates on the money and capital markets.

Foreign currency risk is relatively small, as open positions are generally closed. The Group only has a very small equity risk; in addition, the Group holds shares for the presentation of model portfolios in the context of asset management.

Development of mean VaR
in EUR



VaR for the individual risk types developed over the past two years as follows.

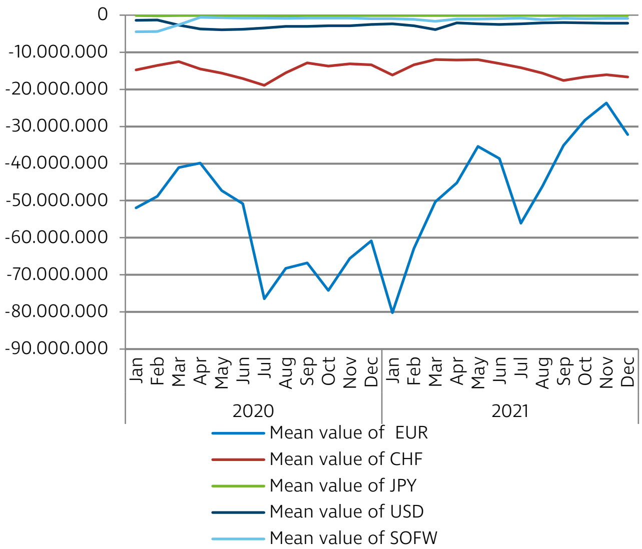
TEUR 2020	Mean Value of VaR total	Mean Value of VaR interest	Mean Value of VaR-FX	Mean Value of VaR shares	Mean Value of VAR credit-spreads
January	13,950	16,335	943	33	5,639
February	15,419	17,922	918	36	5,800
March	17,618	18,762	917	61	10,829
April	22,945	21,238	1,105	72	18,117
May	25,112	23,693	944	73	20,573
June	23,687	23,455	1,241	65	18,323
July	23,495	23,050	1,383	67	18,194
August	23,408	19,876	1,415	68	17,624
September	23,702	18,198	1,472	69	17,421
October	24,043	18,927	1,440	69	17,221
November	24,035	18,480	1,520	72	17,104
December	23,660	17,308	1,580	73	16,657

TEUR 2021	Mean Value of VaR total	Mean Value of VaR interest	Mean Value of VaR-FX	Mean Value of VaR shares	Mean Value of VAR credit-spreads
January	23,813	18,865	1,476	71	16,333
February	23,330	16,557	1,422	72	16,567
March	16,777	13,321	1,580	54	11,742
April	12,717	10,551	1,316	51	9,564
May	11,809	9,118	1,324	47	8,510
June	11,243	8,435	1,285	45	3,946
July	12,627	9,741	1,191	20	3,689
August	11,429	9,305	1,121	15	3,164
September	7,784	7,457	990	14	2,754
October	7,177	5,770	1,006	14	2,702
November	7,326	6,633	889	13	2,802
December	7,865	7,422	752	13	2,960

The VaR for the period from May to July 2020 does not include all reporting dates. This was due to incorrect calculation of the repayment cash flows in SAP.

The change in prevent value resulting from a 200-basis point shift in yield curves developed as follows over the past two years:

Development of present value loss due to 200 basis point shift



(62) CREDIT RISK

The Group's medium-term credit risk objectives and policies are set down in writing in the risk strategy. The analysis factors in the overall bank strategy, business policy requirements, risk adequacy and lending risks. This results in specific, medium-term objectives regarding the portfolio structure and clear limits for all relevant risks (large exposures, foreign currency components, etc.).

The principles of risk behaviour in the lending business are:

- Generally speaking, the borrowing capacity and creditworthiness of the customer must be examined for each decision regarding the assumption of credit risks and the recoverability of the loan documented where borrowing capacity is not sufficient. There is no mere name-lending without this requirement being met.

- Business relationships must comply with the ethics and sustainability principles for Hypo Vorarlberg's business transactions. Financing for customers and proprietary investments of Hypo Vorarlberg with a direct and substantial relation to the following industries or business practices can be decidedly excluded from new business at the time of conclusion:
  - violation of the United Nations Universal Declaration of Human Rights
  - production using primarily child labour
  - violation of labour rights under the ILO core labour standards
  - projects and enterprises in warring states in accordance with OEKB Coverage Guidelines (not including projects for humanitarian or primary public care purposes)
  - pornography and prostitution
  - banned weapons
  - installation and operation of nuclear power plants and coal mining
  - In general, business transactions should be reviewed for morality.
- The exact current definitions can be found in the sustainability strategy.
- In addition, Hypo Vorarlberg's employees examine whether new business in a sensitive business area takes place in a controversial way or harms the environment or the climate (e.g. oil and gas extraction by means of fracking, timber production from primary forests, use of genetically modified seeds in agriculture, or deep-sea fishing that endangers fish stocks).
- The Group wishes to avoid cluster risks in terms of sectors, regions, foreign currencies and individual customers.
- The pricing of loans should be commensurate with credit rating and risk.
- Attempts are made to obtain higher collateral for low rating classes.
- The objective is to reduce loans with a foreign currency risk for the customer both in absolute terms and in relation to total volume.
- The objective is to reduce loans with repayment vehicles and final maturity loans with the exception of defined products such as the Lebenszeitkredit und Lebenswertkredit.

The Group calculates the expected loss (EL) for its entire credit portfolio. The Bank has programmed its own IT tool based on the Basel III IRB approach to calculate economic capital or unexpected loss (UL).

The Bank wants to limit lending in countries where systemic or transfer risk cannot be ruled out. For this purpose, the Managing Board sets country limits that are monitored continuously and their utilisation is regularly reported to the Managing Board. The customer group "banks" is assigned separate volume limits. Banks are important business partners in money market and derivative trading, for example, to whom high-volume and sometimes very short-term loans are extended. These limits are also monitored and their utilisation is reported to the Managing Board on a regular basis. Limits and their utilisation are reported to the Supervisory Board once a year.

Various rating modules specifically configured for the different customer groups are employed in the corporate customer business to measure factors relevant to credit ratings in the different customer segments. These systems meet the requirements of the FMA's Minimum Standards for the Credit Business (FMA-MSK) for risk classification systems. As a result, borrowers are rated on a 25-level scale (1a to 5e), the last five ratings (5a to 5e) being default levels. The individual ratings are linked to estimated one-year default probabilities. Ratings 1a to 2e denote excellent to very good credit ratings, ratings 3a to 3e stand for medium credit ratings, and ratings 4a to 4e indicate increased default risk. The treasury generally has access to external ratings. If no external ratings are available for a business partner, the Back Office produces an internal rating. External ratings are allocated to the internal rating scale. Rating class 1 is only envisaged for business partners with a very good external rating from a rating agency.

Credit decisions are made according to the dual-control principle. Policies are in place for each area to govern rating and volume authorisations for Front Office and Back Office. A second opinion on the decision is usually required from Back Office.

The Bank uses the CRR definition of default to determine default events. All rating tools feature functions for recording default events. If a default event occurs, the customer in question is assigned a default rating (rating class 5). The Bank uses an early-warning event recovery system to clearly identify payments that are 90 days in arrears. The system initiates a standardised workflow that compels Front Office and Back Office to address cases of late payment. If a case is not resolved within 90 days, it is normally transferred to Central Credit Management (restructuring).

The Bank addresses specific banking risks through conservative credit approval policies, strict monitoring of loans and prudent recognition of specific valuation allowances. Specific valuation allowances are recognised for credit risks in connection with loans and advances to customers and banks in accordance with uniform Group criteria. Loan loss provisions for defaulted exposures are recognised on the basis of estimates regarding the amount of future credit losses and interest rebates. Individual loans are to be recognised as impaired when it is likely based on observable criteria that not all interest and repayment obligations will be met in accordance with the contract. The individual impairment amount equates to the difference between the carrying amount of the loan and the present value of estimated future cash flows including recoverable, discounted collateral. The total amount of loan loss provisions relating to balance sheet receivables is directly deducted from loans and advances. In contrast, loan loss provisions for off-balance sheet items (guarantees, endorsement liabilities, credit commitments) are shown as provisions for guarantees and commitments. Non-collectable receivables are written down directly. Recoveries on loans previously written down are recognised through profit or loss.

The subsidiaries generally use the same rating tools as the parent company. This provides for uniform credit ratings Group-wide.

The total exposure includes balance sheet receivables but also contingent liabilities such as open commitments or warranties.

Segments broken down by rating (maximum default risk)

TEUR 31.12.2020	Rating- class 1	Rating- class 2	Rating- class 3	Rating- class 4	Rating- class 5	Unrated	Total
Corporate customers	914,810	1,399,900	5,941,208	277,471	129,620	1,537	8,664,546
Private customers	318	967,623	1,316,199	49,841	25,093	24,113	2,383,187
Financial markets	3,951,488	518,574	61,795	0	0	17,642	4,549,499
Corporate Center	201,670	553,146	1,097,510	243,505	101,364	262,793	2,459,988
Total exposure	5,068,286	3,439,243	8,416,712	570,817	256,077	306,085	18,057,220

TEUR 31.12.2021	Rating- class 1	Rating- class 2	Rating- class 3	Rating- class 4	Rating- class 5	Unrated	Total
Corporate customers	914,747	1,980,895	5,269,190	280,082	163,503	2,352	8,610,769
Private customers	308	1,035,284	1,426,033	41,496	19,848	22,374	2,545,343
Financial markets	4,159,272	425,248	47,440	4,278	0	745	4,636,983
Corporate Center	250,982	653,952	1,111,336	227,876	76,797	248,959	2,569,902
Total exposure	5,325,309	4,095,379	7,853,999	553,732	260,148	274,430	18,362,997

Regions broken down by rating (maximum default risk)

TEUR 31.12.2020	Rating- class 1	Rating- class 2	Rating- class 3	Rating- class 4	Rating- class 5	Unrated	Total
Austria	2,723,402	2,062,391	5,869,785	258,747	115,196	19,132	11,048,653
Italy	3,398	122,943	583,293	214,595	91,397	30,699	1,046,325
Germany	256,858	470,116	1,155,897	36,557	26,175	8	1,945,611
Switzerland and Liechtenstein	334,095	397,701	512,204	54,198	19,251	1,055	1,318,504
Other foreign countries	1,750,533	386,092	295,533	6,720	4,058	255,191	2,698,127
Total exposure	5,068,286	3,439,243	8,416,712	570,817	256,077	306,085	18,057,220

TEUR 31.12.2021	Rating- class 1	Rating- class 2	Rating- class 3	Rating- class 4	Rating- class 5	Unrated	Total
Austria	3,166,440	2,588,662	5,430,179	250,819	142,233	7,632	11,585,965
Italy	3,167	133,237	579,724	198,585	85,407	16,192	1,016,312
Germany	228,517	536,924	1,026,812	58,747	27,166	18	1,878,184
Switzerland and Liechtenstein	370,539	414,139	608,970	27,435	1,582	2,654	1,425,319
Other foreign countries	1,556,646	422,417	208,314	18,146	3,760	247,934	2,457,217
Total exposure	5,325,309	4,095,379	7,853,999	553,732	260,148	274,430	18,362,997

The Group reports a concentration risk in Italy in the poor rating classes. In recent years, the property market in Italy has been characterised by falling prices. The Group conducts leasing business in Northern Italy, where the economic situation, in relative terms, is better than in the rest of the country.

Industries (maximum default risk)

TEUR	31.12.2021	31.12.2020
Financial intermediaries	4,547,301	4,648,801
Consumers/private customers	2,815,163	2,624,984
Public sector	1,748,680	1,816,886
Real estate	2,786,264	2,912,334
Services	2,184,166	2,088,859
Trading	1,007,794	822,335
Metals/machinery	437,592	330,282
Construction	644,175	677,574
Transport/communications	291,327	272,382
Tourism	570,010	543,487
Water and energy utilities	159,513	137,309
Other goods	102,828	122,317
Vehicle construction	214,876	186,028
Petroleum, plastics	93,471	127,275
Other industries	759,837	746,367
Total exposure	18,362,997	18,057,220

Exposure in rating class 5

TEUR	31.12.2021	31.12.2020
Corporate customers - exposure	163,503	129,620
Corporate customers – valuation allowance	41,620	40,655
Private customers - exposure	19,848	25,093
Private customers - valuation allowance	3,532	5,639
Corporate Center - exposure	76,797	101,364
Corporate Center - valuation allowance	18,407	22,759
Total – exposure	260,148	256,077
Total - valuation allowance	63,559	69,053

Non Performing Loans

The Group designates loans in the regulatory exposure class loans in arrears (90 days past due, liability unlikely to be settled) and other loans with a default rating as non-performing loans. As of December 31, 2021, non-performing loans amounted to TEUR 265,840 (2020: TEUR 256,986) and represent 1.45 % (2020: 1.42 %) of the maximum default risk.

Collateral

A uniform and comprehensible collateral measurement policy governs the measurement and acceptance of collateral. During the terms of loans, the collateral is monitored on a regular basis to ensure that it retains value. Collateral is usually measured by the Back Office, or above a certain size by a body independent of the lending process.

The most important type of collateral is real estate. Valuations are reviewed regularly. The fulfilment of operating conditions for the eligibility of such collateral for capital backing is guaranteed. Loans above TEUR 3,000 are remeasured by independent specialists after three years at the most. The Hypo Immobilien & Leasing Group operates as a service provider in this business to ensure uniform, independent valuation. Real estate collateral is predominantly found in the market area of the bank. The largest volume of real estate collateral is in the domestic market of Vorarlberg, followed by Vienna. In Italy, the leased assets are in Northern Italy.

Personal guarantees can only be taken into account when the guarantor or liable party has an excellent credit rating. These are usually public bodies or banks. Discounts are applied to the current market value of financial collateral to account for unexpected fluctuations. In addition, such collateral must be sufficiently liquid to guarantee that it can be realised. There is no significant concentration of guarantors.

Other collateral is only recognized if its recoverability and legal enforceability are given in all respects. Hypo Immobilien & Leasing GmbH is responsible for the realization of mortgage-backed defaults. In the reporting period, no properties (2020: no properties) were acquired by the Hypo Immobilien & Leasing Group; nine properties (2020: 11 properties) were sold for TEUR 1,141 (2020: TEUR 2,162).

Depending on the market situation, it may not be easy to convert the acquired properties into cash. Following acquisition, it is analysed whether a sale or a long-term let would be more advantageous. In the event of a sales strategy, an attempt will be made to implement the sale as quickly as possible, taking the proceeds into account. In the event of a letting strategy, the property will be permanently classified as investment property in the Group.

As a result of restructuring measures, no significant individual liability was rated sound in 2021 or in the reference year.

Past due but non-impaired receivables

TEUR	31.12.2021	31.12.2020
Length of time overdue		
Less than 1 day	17,864,176	17,549,145
1 to 60 days	136,631	156,298
61 to 90 days	2,382	1,279
More than 90 days	99,660	94,421
Total exposure	18,102,849	17,801,143

Loans and advances with forbearance measures

TEUR	31.12.2021	31.12.2020
Public sector	0	5,590
Financial Intermediaries	2,115	0
Non-financial companies	199,024	69,707
Private households	16,595	9,166
Loans and advances with forbearance measures on performing loans	217,734	84,463
Public sector	161	0
Non-financial companies	61,969	72,134
Private households	7,340	5,008
Loans and advances with forbearance measures on non-performing loans	69,470	77,142
Total loans and advances with forbearance measures	287,204	161,605

In December 2017, Hypo Vorarlberg concluded a synthetic securitisation in the form of a financial guarantee from the European Investment Fund (EIF). The main objective of this synthetic securitisation is to hedge credit risks. The EIF guarantee hedges the senior and mezzanine tranche of a reference portfolio of loans to small and medium-sized enterprises (SMEs) and mid caps in Austria and Germany. As of the end of 2017, the reference portfolio had a volume of TEUR 330,902, while a volume of TEUR 138,426 of the reference portfolio was still outstanding as of 31 December 2021.

TEUR	31.12.2021	31.12.2020
Senior tranche	106,957	146,635
Mezzanine tranche	28,248	38,727
First Loss tranche	3,221	3,063
Total reference portfolio	138,426	188,425

In November 2020, Hypo Vorarlberg concluded a new synthetic securitisation in the form of another financial guarantee from the European Investment Fund (EIF) for the mezzanine tranche of a reference portfolio of loans to mainly small and medium-sized enterprises (SMEs) and mid caps in Austria and Germany. As of the end of 2020, the reference portfolio had a volume of TEUR 330,000, as of December 31, 2021, a volume of TEUR 329,749 of the reference portfolio was still outstanding.

TEUR	31.12.2021	31.12.2020
Senior tranche	269,072	269,280
Mezzanine tranche	56,057	56,100
First Loss tranche	4,620	4,620
Total reference portfolio	**329,749**	**330,000**

The reference portfolios were not sold and remain on Hypo Vorarlberg's books. The significant risk transfer under Articles 244 and 245 CRR leads to a reduction in risk-weighted assets and thus the own funds requirement. Hypo Vorarlberg has exercised its option and has deducted securitisation items with a risk weighting of 1.250 % from the capital and no longer recognises them under risk-weighted assets.

(63) LIQUIDITY RISK

Liquidity risk management is conducted to ensure the Bank's ability to pay its obligations at all times (operating liquidity) and simultaneously minimise costs associated with holding cash. The Group monitors its liquidity buffer on an ongoing basis. This includes instruments and markets available for refinancing and assets that are convertible into cash (tactical liquidity management). As part of strategic liquidity management, the Group manages the maturities of its assets and liabilities and defines a corresponding issuance strategy. Monitoring involves gap analyses and forecasting the issue volume required for the calendar year. The Group tries to identify potential risks by carrying out regular stress tests. Contingency plans are in place to ensure the Bank's continued solvency in the event of a liquidity crisis.

The Bank employs the following control instruments to identify and contain liquidity risks:

Operational
- Limiting weekly liquidity gaps on the money market
- Ratios of amounts payable and receivable within three months

Strategic
- Limiting cumulative annual liquidity gaps on the capital market
- Forecasting the issue volume required for the calendar year
- Liquidity value at risk

Stress tests
- Liquidity needs versus buffer in crisis situation

The Group is aware of the key significance of the capital market for funding. Relationships with investors are established and maintained through regular road shows. The Group aims for a diverse issuance policy with regard to markets, instruments and investors.

The Bank's liquidity buffer should be large enough at all times to accommodate the utilisation of credit commitments (call risk) and ensure that expected payments not received (time risk) do not compromise solvency. In addition, the Group currently hardly utilises the OeNB's or ECB's marginal lending facility, the SNB repo system and the money market. The Group participated in the ECB's long-term tenders. Therefore, there is sufficient available liquidity at all times to prevent bottlenecks in the event of a crisis.

Hypo Vorarlberg complies with the liquidity regulations outlined in the Austrian Banking Act (BWG) and the CRR. There are no other cash flow risks for the Group besides the risks described here. The information in the tables on development of maturities on the money and capital markets relate to financial instruments. The expected cash flows are as follows: The disclosures in the derivatives column relate to notes (19), (24), (33) and (36). The disclosures in the assets column relate to notes (18) and (20) to (23). The disclosures in the equity and liabilities column relate to notes (34) to (35), (37) and (40). The money market table shows maturities within the next 12 months. The capital market table shows maturities after the next 12 months.

Maturity profile money market

TEUR	Assets		Liabilities		Total
31.12.2020	Assets	Derivatives	Liabilities	Derivatives	
January 2021	2,042,188	153,148	-680,067	-153,247	1,362,022
February 2021	232,711	6,620	-72,543	-6,616	160,172
March 2021	464,528	206,770	-143,686	-206,321	321,291
April 2021	92,185	4,967	-96,275	-4,962	-4,085
May 2021	161,393	24,939	-101,904	-25,083	59,345
June 2021	207,317	52,351	-79,243	-52,337	128,088
July 2021	339,838	18,318	-345,506	-18,095	-5,445
August 2021	74,943	24,548	-67,950	-24,529	7,012
September 2021	140,316	219	-69,481	-219	70,835
October 2021	113,821	881	-285,416	-880	-171,594
November 2021	149,465	960	-76,105	-872	73,448
December 2021	283,944	17,972	-79,275	-17,968	204,673

TEUR	Assets		Liabilities		Total
31.12.2021	Assets	Derivatives	Liabilities	Derivatives	
January 2022	2,345,383	156,633	-443,761	-160,982	1,897,273
February 2022	145,926	13,280	-74,122	-11,304	73,780
March 2022	371,897	207,411	-111,883	-208,274	259,151
April 2022	398,412	20,448	-93,075	-21,482	304,303
May 2022	178,028	17,048	-111,592	-10,849	72,635
June 2022	283,690	46,800	-98,705	-49,343	182,442
July 2022	131,555	57,951	-98,641	-52,882	37,983
August 2022	93,369	32,579	-78,198	-33,255	14,495
September 2022	240,157	19,238	-376,343	-18,457	-135,405
October 2022	165,354	8,896	-88,323	-8,561	77,366
November 2022	140,472	29,941	-187,799	-23,046	-40,432
December 2022	339,137	23,725	-112,831	-23,085	226,946

Development of maturities on the capital market

TEUR	Assets		Liabilities		Total
31.12.2020	Assets	Derivatives	Liabilities	Derivatives	
2021	4,489,513	629,574	-2,164,157	-617,049	2,337,881
2022	1,657,266	192,111	-1,348,676	-175,239	325,462
2023	2,553,785	99,748	-4,376,052	-86,280	-1,808,799
2024	1,268,755	217,038	-1,385,556	-211,464	-111,227
2025	1,087,846	381,897	-1,288,518	-364,947	-183,722
2026	791,690	102,005	-850,395	-92,165	-48,865
2027	672,758	47,068	-898,173	-35,827	-214,174
2028	613,257	58,360	-265,950	-47,989	357,678
2029	609,803	34,591	-625,809	-22,419	-3,834
2030	450,730	27,608	-413,994	-14,361	49,983
2031	333,470	25,375	-281,401	-11,734	65,710
2032	306,627	39,902	-129,999	-29,555	186,975

TEUR	Assets		Liabilities		Total
31.12.2021	Assets	Derivatives	Liabilities	Derivatives	
2022	4,833,350	644,067	-1,940,776	-633,136	2,903,505
2023	2,895,175	228,204	-4,687,755	-219,970	-1,784,346
2024	1,532,204	227,070	-1,762,722	-237,112	-240,560
2025	1,229,095	395,828	-1,424,654	-401,490	-201,221
2026	1,103,099	122,793	-1,232,420	-123,297	-129,825
2027	799,800	71,233	-991,067	-66,517	-186,551
2028	693,756	52,429	-503,287	-48,872	194,026
2029	673,325	51,831	-1,196,460	-47,005	-518,309
2030	574,910	35,223	-464,418	-25,394	120,321
2031	534,114	29,423	-400,526	-18,753	144,258
2032	345,376	42,916	-143,146	-36,206	208,940
2033	326,006	22,800	-73,440	-15,931	259,435

(64) OPERATING RISK

Operating risks are minimised in the Bank in all divisions through the clear distribution of responsibilities and written procedural instructions. The Bank has written emergency plans in place, and a security and crisis management manual are made available to all employees. Employees receive regular training to prepare them for crisis events of all kinds. The Bank has critically studied all internal processes multiple times as part of functional analyses.

Loss events at the Bank are recorded in a loss event database. In this database, operating loss events are assigned to different categories. Quality assurance is performed by Operational Risk Managers who review each loss event. For example, the recording of loss events is guaranteed because it is a requirement for a necessary entry. The database is analysed for the quarterly OR report.

The Bank places great emphasis on data protection and security measures and conducts a large number of controls and monitoring processes to ensure that entrusted data remains confidential. Internal Audit conducts both regular and unannounced audits to ensure adherence to procedural instructions.

Material transactions and decisions are made exclusively in accordance with the dual-control principle. Well-trained and conscientious employees are of great importance to the Bank. The internal Legal Department designs contracts carefully to minimise legal risks, where necessary in consultation with specialist lawyers.

(65) CONSOLIDATED CAPITAL AND REGULATORY CAPITAL REQUIREMENTS

Capital management
The Group's capital management objectives and requirements include:
- Compliance with the regulatory capital requirements of CRR
- Maintaining a going concern
- Managing shareholder distributions
- Development of the capital base

Capital adequacy is monitored on an ongoing basis in accordance with CRR. These data are calculated every month and reported individually and at the level of the Group to Österreichische Nationalbank on a quarterly basis.

The CRR requires institutions to meet a hard core capital ratio (CET1) of 4.50 %, a core capital ratio (T1) of 6.00 % and an own funds ratio of 8.00% in 2021. In addition, among other things, an additional capital conservation buffer of 2.50 % (2020: 2.50 %) and a systemic risk buffer of 0.50 % (2020: 0.50 %) will be required in 2021. Hypo Vorarlberg Bank AG complied with the provisions of the CRR regarding regulatory capital both in the reporting year 2021 and in the previous year.

The amount of regulatory capital held by the Bank Group is determined by Central Accounting and consists of three tiers. CRR provides appropriate transitional regulations for the period from 2014 to 2024.

Common equity tier 1 capital - CET1
This includes the eligible and paid-in capital instruments, share premium accounts related to these instruments, retained earnings, eligible profit/ loss for the year, accumulated other comprehensive income, and other reserves. In addition, CRR provides for deductions, such as intangible assets, deferred income tax assets, measurement effects due to the institution's own credit risk, and common equity tier 1 (CET1) instruments of financial sector entities that exceed certain thresholds.

Additional Tier 1 capital - AT1
This includes the eligible and paid-in capital instruments and share premium accounts related to these instruments. In addition, deductions are also included in CRR for these items.

Tier 1 capital (T1) is the total of common equity tier 1 capital (CET1) and Additional tier 1 capital (AT1)

Tier 2 capital - T2
This includes the eligible tier 2 bonds and subordinated loans and share premium accounts related to these instruments. Tier 2 instruments in the last five years of their terms are only eligible to a certain extent. Tier 2 instruments of financial sector entities that exceed certain thresholds are also deductible here.

The sum of tier 1 (T1) and tier 2 (T2) capital gives the attributable own funds. The tables below show the capital requirements pursuant to CRR and the breakdown of the Bank Group's capital.

Pillar 2 of Basel III requires banks additionally to demonstrate their capital adequacy on the basis of internal models. This is to ensure in particular that risks are considered which receive no capital requirements under Pillar 1. Such risks include interest rate risk in the banking book. The Bank employs the Internal Capital Adequacy Assessment Process (ICAAP) to identify, quantify, aggregate and monitor all major risks. The Bank calculates economic capital requirements for each of these risks. The Bank allocates a capital buffer if economic capital requirements cannot be calculated. The available risk coverage potential is distributed across organisational units and risk types in annual planning. By using the Capital Adequacy Process, the Bank ensures that risklimits are complied with and that risks taken are covered by existing coverage potential. The Bank applies a confidence level of 99.9 % for the Capital Adequacy Process on a liquidation basis holding period is one year in each case. Correlations between individual risk types are not taken into consideration. The Capital Adequacy Process calculation is performed monthly.

The Bank's credit risk calculation of economic capital is based on the Basel III IRB approach. With this approach, the consumption of economic capital depends on the type and amount of the liability, collateral and rating of the debtor. Value at risk is employed in the ICAAP for the management of market risk. The VaR limit defines the maximum loss the Bank is prepared to absorb under normal market conditions. The Managing Board defines the global VaR limit on an annual basis. In addition, limits are defined for various yield curves, currency pairs or equity position risks.

The Bank calculates economic capital for operational risk using the Pillar 1 basic indicator approach. To quantify structural liquidity risk, Hypo Vorarlberg calculates liquidity VaR based on the ICAAP guidelines of the Austria Financial Market Authority/Austrian National Bank. In-house methods are used for shareholder risk, real estate risk, foreign currency risk in the lending business, migration risk and counterparty default risk. A capital buffer is recognised for other risks.

Regulatory requirements according to CRR

Total risk exposure according to CRR

TEUR	31.12.2021	31.12.2020
Risk weighted exposure amounts	8,007,340	8,198,810
Risk exposure amount for settlement and delivery risks	0	1,196
Total risk exposure amount for position, foreign exchange and commodities risks	586	496
Total risk exposure amount for operational risk	424,238	419,334
Total risk exposure amount for credit valuation adjustment	27,127	25,243
Total risk exposure amount	**8,459,291**	**8,645,079**

Common equity tier 1 capital (CET1) according to CRR

TEUR	31.12.2021	31.12.2020
Capital instruments eligible as CET1 capital	206,826	206,826
Retained earnings	955,309	892,918
Accumulated other comprehensive income	-8,803	-7,976
Other reserves	132,567	132,567
Minority interests	12	15
Adjustments to CET1 due to prudential filters	-3,356	-5,009
Intangible assets	-1,198	-1,843
Insufficient coverage of non-performing Risk positions	-11	0
Other transitional adjustments to common equity tier 1	20,489	22,453
Common equity tier 1 capital (CET1)	**1,301,835**	**1,239,951**

Additional tier 1 capital (AT1) according to CRR

TEUR	31.12.2021	31.12.2020
Capital instruments eligible as AT1 capital	50,000	50,000
Instruments issued by subsidiaries that are given recognition in AT1 capital	2	3
Additional tier 1 capital (AT1)	**50,002**	**50,003**

Tier 2 capital (T2)

TEUR	31.12.2021	31.12.2020
Capital instruments and subordinated loans eligible as T2 capital	225,954	249,969
Instruments issued by subsidiaries that are given recognition in T2 capital	3	4
Tier 2 capital (T2)	**225,957**	**249,973**

Composition of own funds according to CRR and capital ratios

TEUR	31.12.2021	31.12.2020
Common equity tier 1 capital (CET1)	1,301,835	1,239,951
Additional tier 1 capital (AT1)	50,002	50,003
Tier 1 capital	**1,351,837**	**1,289,954**
Tier 2 capital (T2)	225,957	249,973
Own funds	**1,577,794**	**1,539,927**
CET1 capital ratio (CET1)	15.39 %	14.34 %
Surplus of CET1 capital	921,167	850,923
T1 capital ratio (T1)	15.98 %	14.92 %
Surplus of T1 capital	844,280	771,250
Total capital ratio	18.65 %	17.81 %
Surplus of total capital	901,051	848,321

H. DISCLOSURES PERTAINING TO AUSTRIAN LAW

(66) AUSTRIAN LAW

In line with Section 59a Austrian Banking Act in conjunction with Section 245a (1) Austrian Corporate Code (UGB), the consolidated financial statements were prepared in accordance with International Financial Reporting Standards applicable in the EU. In line with Section 59a Austrian Banking Act, the disclosures per Section 64 (1) No. 1–15 and (2) Austrian Banking Act and Section 245a (1) and (3) UGB are to be incorporated in the notes to the consolidated financial statements.

(67) ADDITIONAL DISCLOSURES IN LINE WITH THE AUSTRIAN BANKING ACT

The disclosure pursuant to Section 64 (1) No. 1 BWG on participation in the leasing business can be read in note (23).

The disclosure pursuant to Section 64 (1) No. 2 BWG on total assets and liabilities in foreign currencies can be read in note (42).

The disclosure pursuant to Section 64 (1) No. 3 BWG on forward transactions not yet settled on the reporting date can be read in notes (19) and (33).

The disclosure pursuant to Section 64 (1) No. 4 BWG on residual terms of loans and advances to banks and customers of liabilities to banks and customers can be read in note (43).

The balance sheet items "Financial liabilities at fair value (option)" and "Financial liabilities at amortized cost" include subordinated liabilities. The following table provides details in accordance with Section 64 (1) No. 5 to 6 BWG.

TEUR	Total number		Carrying value	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Tier 2 capital according to Part Two Title I Chapter 4 (EU Reg. 575/2013) – LFVO	2	2	24,298	23,640
Tier 2 capital according to Part Two Title I Chapter 4 (EU Reg. 575/2013) LAC	4	4	300,924	303,751
Additional tier 1 capital according to Part Two Title I Chapter 3 (EU-Reg. 575/2013) – LAC	2	2	50,534	50,534

	Average Interest		Average remaining term (in years)	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Tier 2 capital according to Part Two Title I Chapter 4 (EU Reg. 575/2013) – LFVO	0.952 %	0.540 %	9.3	10.3
Tier 2 capital according to Part Two Title I Chapter 4 (EU Reg. 575/2013) LAC	3.501 %	3.533 %	4.5	5.5
Additional tier 1 capital according to Part Two Title I Chapter 3 (EU-Reg. 575/2013) – LAC	6.074 %	6.074 %	No maturity	No maturity

The following subordinated liabilities exceed 10 % of the total amount of the above subordinated liabilities. The conditions of these issues in accordance with Section 64 No. 5 BWG are also given.

Subordinated bond ISIN AT0000A0XB21, TEUR 100,000 fixed interest rate 5.0%, term 2012 to 2022, no call or conversion option, repaid at end of term at nominal value

- Subordinated bond ISIN AT0000A1GTF4, TEUR 50,069, fixed interest rate 4.5 %, term 2015 to 2025, no call or conversion option, repaid at end of term at nominal value.
- Subordinated bond ISIN AT0000A1YQ55, TEUR 50,000 fixed interest rate 3.1 %, term 2017 to 2027, no call or conversion option, repaid at end of term at rate of 100.
- Subordinated bond ISIN CH0461238948, TCHF 100,000 fixed interest rate 1.625 %, term 2019 to 2029, no call or conversion options, repaid at end of term at rate of 100.

Additional tier 1 capital was generated in the amount of TEUR 10,000 in 2016 by issuing the Hypo Vorarlberg additional tier 1 bond 2016, ISIN AT0000A1LKA4. The distribution corresponds to 5.87 % p.a. for the first 10 years and subsequently to the six-month Euribor plus 5.30 % p.a. (annual payment). It can be called by the issuer after 10 years and subsequently on an annual basis. In 2018, additional tier 1 capital in the amount of TEUR 40,000 was generated by issuing the Hypo Vorarlberg additional tier 1 bond 2018, ISIN AT0000A20DC3. The distribution corresponds to 6.125 % p.a. for the first 12 years and one month and subsequently to the six-month Euribor plus 5.00 % p.a. (semi-annual payment). It is redeemable for the first time at the issuer's discretion after 12 years and one month, and subsequently on an annual basis.

The accrued interest as at the reporting date amounts to TEUR 321 (2020: TEUR 321) for both bonds. The bonds are unsecured and subordinated and have an indefinite term.

In 2022, bonds and other fixed-income securities in accordance with Section 64 (1) No. 7 BWG totalling TEUR 452,707 (2021: TEUR 413,618) and issued bonds totalling TEUR 504,678 (2021: TEUR 310,085) will fall due for repayment.

The disclosure pursuant to Section 64 (1) No. 8 BWG on assets provided as collateral can be read in note (47).

The disclosure pursuant to Section 64 (1) No. 9 BWG is not made in terms of geographical markets, as these do not differ materially from the location of the Bank's organisation.

The disclosure pursuant to Section 64 (1) No. 12 BWG is already made in the individual notes of the consolidated financial statements where the amounts are significant.

In 2021, the interest expense for subordinated liabilities according to Section 64 (1) No. 13 BWG was TEUR 10,437 (2020: TEUR 10,561).

The disclosure pursuant to Section 64 (1) No. 15 BWG can be read in note (69). The Bank maintains a small trading portfolio per Article 94 CRR with a focus on customer service. As at 31 December 2021, the trading portfolio includes investment funds of TEUR 160 (2020: TEUR 136).

The disclosure pursuant to Section 64 (1) No. 16 and No. 17 BWG on the breakdown of tier 1 capital, supplementary capital and consolidated capital can be read in notes (41) and (65).

The financial information and key figures for each country of establishment pursuant to Section 64 (1) No. 18 BWG are disclosed in the following table.

TEUR 2020	Austria	Switzerland	Itay	Czech Republic
Net interest income	148,928	9,819	15,413	0
Dividend income	688	0	0	0
Net fee and commission income	34,313	478	-144	0
Net result from financial instruments at amortized cost	1.518	0	0	0
Net result from financial instruments at fair value	-8,550	315	1	0
Administrative expenses	-84,239	-5,217	-5,642	-14
Impairments	-6,534	-312	-1,339	0
Earnings before taxes	46,867	2,959	-987	-14
Taxes on income	-10,826	-428	-240	0
Number of full-time equivalent employees	633	19	42	0

TEUR 2021	Austria	Switzerland	Itay	Czech Republic
Net interest income	172,380	10,733	12,948	0
Dividend income	794	0	0	0
Net fee and commission income	37,490	628	-95	0
Net result from financial instruments at amortized cost	438	5	0	0
Net result from financial instruments at fair value	-6,220	351	2	0
Administrative expenses	-86,761	-5,672	-6,307	-6
Impairments	-6,468	-312	-1,348	0
Earnings before taxes	84,930	7,011	1,743	-6
Taxes on income	-25,071	-1,018	-779	0
Number of full-time equivalent employees	658	19	42	0

Switzerland comprises the branch in St. Gallen. The branch in St. Gallen acts as a universal bank and it focuses on lending, asset management and investment advisory services. It operates in German-speaking Switzerland, especially Eastern Switzerland.

Italy comprises our subsidiaries Hypo Vorarlberg Holding (Italy) G.m.b.H, Hypo Vorarlberg Leasing AG and Hypo Vorarlberg Immo Italia srl. All companies are based in Bolzano. Hypo Vorarlberg Leasing AG conducts property leasing business and occasionally movables leasing business. Hypo Vorarlberg Leasing AG has branches in Como and Treviso. It operates in South Tyrol and Northern Italy. Hypo Vorarlberg Immo Italia srl manages and evaluates the Group's properties in Italy and provides property services for the Group. In addition, Hypo Vorarlberg Immo Italia srl manages and commercialises its own properties. Hypo Vorarlberg Holding (Italy) G.m.b.H. holds the stakes in the two other companies.

The Czech Republic as a country of establishment comprises the companies Inprox Praha Michle - HIL s.r.o. and Inprox Praha Letnany - HIL s.r.o., both with registered offices in Prague. Both companies were liquidated and deconsolidated in the course of 2021.

The return on total assets in accordance with Section 64 (1) No. 19 BWG is 0.61 % (2020: 0.33 %).

(68) AUDITOR'S FEE PER AUSTRIAN CORPORATE CODE (UGB)

The table below provides a breakdown of fees paid to Ernst & Young, Wirtschaftsprüfungsgesellschaft m.b.H., Wagramer Straße 19 – IZDTower, 1220 Vienna per Section 266 UGB.

TEUR	2021	2020
Expenses for auditing the consolidated financial statements	205	203
Expenses for other auditing services	41	41
Expenses for other services	17	74
Total fees	**263**	**318**

For other assurance services, the prior-year figure was adjusted as costs for these services are attributable to 2020.

(69) DISCLOSURES ON STOCK-EXCHANGE LISTING

A breakdown of securities per Section 64 (1) No. 10 and No. 11 BWG is provided below.

TEUR	Not listed 31.12.2021	Listed 31.12.2021	Not listed 31.12.2020	Listed 31.12.2020	Total 31.12.2021	Total 31.12.2020
Debt securities at fair value (non-SPPI)	92,990	98,244	80,590	86,760	191,234	167,350
Debt securities at fair value (option)	59,972	0	59,554	0	59,972	59,554
Debt securities at amortized cost	97,999	2,338,567	101,533	2,497,146	2,436,566	2,598,679
Equity securities trading assets	160	0	136	0	160	136
Equity securities at fair value (non-SPPI)	12,729	0	23,897	0	12,729	23,897
Total securities	**263,850**	**2,436,811**	**265,710**	**2,583,906**	**2,700,661**	**2,849,616**
of which non-current assets	263,581	2,436,811	255,325	2,583,906	2,700,392	2,839,231
of which current assets	109	0	10,249	0	109	10,249
of which trading assets	160	0	136	0	160	136

In the interest of improved transparency and informational value of the breakdown of securities, loans and credits were not taken into account.

The difference between cost and the lower repayment amount per Section 56 (2) Austrian Banking Act was TEUR 50,821 (2020: TEUR 65,280). The difference between the repayment amount and the lower cost per Section 56 (3) Austrian Banking Act was TEUR 16,781 (2020: TEUR 10,829). At 31 December 2021, subordinated capital in the portfolio securities had a nominal value of TEUR 69 (2020: TEUR 882).

(70) SUBSIDIARIES AND HOLDINGS NOT INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

The following subsidiaries were not included in the consolidated financial statements as they are of minor importance to the informational value of the consolidated financial statements, both when considered individually and when taken together. In most cases, these companies are project companies which do not undertake business operations and are instead responsible for the realisation of individual assets.

Company name, place TEUR	Percentage Of capital	UGB Share-Holder's equityl	UGB Net result	UGB Total assets	Date of Financial statements
HV-Finanzdienstleistungs- und Immobilien GmbH, DE-Kempten	100.00 %	221	-4	225	31.12.2021
Hotel Widderstein Besitz & Verwaltungs GmbH, Dornbirn	100.00 %	74	-14	223	31.12.2021
Total		**295**	**-18**	**448**	

The following holdings over which the Group can exert significant influence are not included in the consolidated financial statements, because inclusion would lead to a disproportionately long delay to the consolidated financial statements and also because reconciliation would involve disproportionately high costs, due to IFRS, without significantly increasing the informational value with regard to the Group's net assets and liabilities, financial condition, and results of operations.

Company name, place TEUR	Percentage Of capital	UGB Share-Holder's equityl	UGB Net result	UGB Total assets	Date of Financial statements
„Wirtschafts-Standort Vorarlberg" Betriebsansiedlungs GmbH, Dornbirn	33.33 %	37	0	683	31.12.2021

VI. MANAGING BOARD
AND SUPERVISORY BOARD

MANAGING BOARD

Michel Haller
Chairman of the Managing Board, Tettnang

Wilfried Amann
Member of the Managing Board, Bludesch

Philipp Hämmerle
Member of the Managing Board, Lustenau

SUPERVISORY BOARD

Jodok Simma
Chairman, Chairman of the Managing Board (retired), Bregenz

Alfred Geismayr
Deputy Chairman, Chartered Accountant, Dornbirn

Astrid Bischof
Entrepreneur, Göfis

Karl Fenkart
State official, Lustenau

Eduard Fischer
Entrepreneur (retired), Offsetdruckerei Schwarzach Ges.m.b.H., Dornbirn

Michael Horn
Deputy Chairman of the Managing Board of Landesbank Baden-Württemberg (LBBW) (retired), Weingarten

Karlheinz Rüdisser
Deputy State Governor of Vorarlberg (retired), Lauterach

Birgit Sonnbichler
Entrepreneur, Dornbirn

Nicolas Stieger
Lawyer, Bregenz

Ulrich Theileis (until 31.12.2021)
Member of the Managing Board of Landeskreditbank Baden-Württemberg – Förderbank (L-Bank), Ettlingen

Veronika Moosbrugger
Chairwoman of the Works Council

Andreas Hinterauer
Works council delegate

Elmar Köck
Works council delegate

Gerhard Köhle
Works council delegate

Peter Niksic
Works council delegate

As of March 2022

VII. SUBSIDIARIES AND HOLDINGS

a) Companies fully consolidated in the consolidated financial statement:

Company name, place	Percentage of capital	Date of financial statement
"Hypo-Rent" Leasing- und Beteiligungsgesellschaft mbH, Bregenz	100.00 %	31.12.2021
LD-Leasing GmbH, Dornbirn	100.00 %	31.12.2021
Hypo Vorarlberg Leasing AG, IT-Bozen	100.00 %	31.12.2021
HYPO VORARLBERG HOLDING (ITALIEN) G.m.b.H, IT-Bozen	100.00 %	31.12.2021
Hypo Vorarlberg Immo Italia srl, IT-Bozen	100.00 %	31.12.2021
IMMOLEAS Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100.00 %	31.12.2021
Hypo Immobilien Besitz GmbH, Dornbirn	100.00 %	31.12.2021
Hypo Immobilienleasing Gesellschaft m.b.H., Dornbirn	100.00 %	31.12.2021
"HERA" Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100.00 %	31.12.2021
Hypo Immobilien Bankgebäudemanagement GmbH, Dornbirn	100.00 %	31.12.2021
Hypo Immobilien Investment GmbH, Dornbirn	100.00 %	31.12.2021
Hypo Immobilien & Leasing GmbH, Dornbirn	100.00 %	31.12.2021
HIL Mobilienleasing GmbH & Co KG, Dornbirn	100.00 %	31.12.2021
HIL Immobilien GmbH, Dornbirn	100.00 %	31.12.2021
HIL BETA Mobilienverwertung GmbH, Dornbirn	100.00 %	31.12.2021
HIL EPSILON Mobilienleasing GmbH, Dornbirn	100.00 %	31.12.2021
HIL Baumarkt Triester Straße Immobilienleasing GmbH, Dornbirn	100.00 %	31.12.2021
HIL Real Estate alpha GmbH, Dornbirn	100.00 %	31.12.2021
HIL Real Estate International Holding GmbH, Dornbirn	100.00 %	31.12.2021
"POSEIDON" Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100.00 %	31.12.2021
Hypo Immobilien Cinemabetriebs GmbH, Dornbirn	100.00 %	31.12.2021
Edeltraut Lampe GmbH & Co KG, Dornbirn	100.00 %	31.12.2021
D. TSCHERNE Gesellschaft m.b.H., Wien	100.00 %	31.12.2021
VKL IV Leasinggesellschaft mbH, Dornbirn	100.00 %	31.12.2021
VKL V Immobilien Leasinggesellschaft m.b.H., Dornbirn	100.00 %	31.12.2021
HYPO EQUITY Beteiligungs GmbH, Bregenz*) zuvor: HYPO EQUITY Beteiligungs AG	100.00 %	30.09.2021
KUFA GmbH, Bregenz*)	100.00 %	30.09.2021
HYPO EQUITY Unternehmensbeteiligungen AG, Bregenz*)	100.00 %	30.09.2021
METIS - Beteiligungs und Verwaltungs GmbH, Bregenz*)	100.00 %	30.09.2021
"HSL-Lindner" Traktorenleasing GmbH, Dornbirn	76.00 %	31.12.2021

*) The separate financial statements of these companies were prepared on 30 September 2021, as these companies' financial years differ from the calendar year. The financial figures for the fourth quarter have been taken into consideration.

Changes in the scope of consolidation are described in Note (2). Apart from this, the stated shares in the capital of the remaining companies in the previous table have not changed in the financial year 2021. The voting rights correspond to the share in capital.

b) Companies consolidated in the consolidated financial statements according to the equity method
The shareholdings listed in the following table did not change in the financial year 2021. The share of voting rights corresponds to the equity interest in each case.

Company name, place TEUR	Percentage Of capital	Shareholder's equity	Total assets	Liabilities	Revenues
comit Versicherungsmakler GmbH, Dornbirn	40.00 %	3,803	4,771	968	-11
MASTERINVEST Kapitalanlage GmbH, Wien	37.50 %	5,216	10,109	4,893	0
Vorarlberger Kommunalgebäudeleasing Gesellschaft m.b.H., Dornbirn	33.33 %	133	134	1	0

comit Versicherungsmakler GmbH is a financial services company that advises and supports industrial, commercial and private customers with insurance matters and insurance solutions. Vorarlberger Kommunalgebäudeleasing Gesellschaft m.b.H. and IVKL III Gebäudeleasing Gesellschaft m.b.H. are property companies whose tasks involve either the letting, sale or administration of properties. The business activity of MASTERINVEST Kapitalanlage G.m.b.H. involves the management of investment funds in accordance with the Austrian Investment Fund Act.

All companies included in the consolidated financial statements according to the equity method are based on separate financial statements as at 31 December 2021. For the companies, net interest income is shown under revenues.

(71) DISCLOSURES ON NON-CONTROLLING INTERESTS

Non-controlling interests are held in "HSL-Lindner" Traktoren-leasing GmbH, based in Dornbirn. The financial information on this company is presented in the table below.

"HSL-Lindner" Traktorenleasing GmbH, Dornbirn

TEUR	31.12.2021	31.12.2020
Assets	948	988
Financial assets	942	984
of which current	630	716
of which non-current	312	268
Other assets	6	4
Liabilities	712	753
Financial liabilities	696	725
of which current	0	30
of which non-current	696	695
Other liabilities	16	28
Shareholders' equity	236	235
of which non-controlling interests	57	56

TEUR	2021	2020
Net interest income	40	43
Other income	94	474
Other expenses	-93	-473
Earnings before taxes	67	62
Taxes on income	-17	-15
Income after taxes	51	47
of which non-controlling interests	12	11
Dividends/distributions	50	40
of which non-controlling interests	12	10

(72) DISCLOSURES ON MATERIAL JOINT VENTURES AND ASSOCIATES

Financial information on material joint ventures and associates is presented in the tables below.

comit Versicherungsmakler GmbH, Dornbirn

TEUR	31.12.2021	31.12.2020
Assets	4,771	4,537
Financial assets	2,422	2,227
of which current	2,421	2,227
Other assets	2,349	2,310
Liabilities	968	1,076
Financial liabilities	11	36
of which current	11	36
Provisions	280	258
Other liabilities	677	782
Shareholders' equity	3,803	3,461

TEUR	2021	2020
Other income	19	1,399
Other expenses	-32	-48
Earnings before taxes	498	2,002
Taxes on income	-156	-228
Income after taxes	342	1,774
Dividends/distributions	0	550

MASTERINVEST Kapitalanlage GmbH, Wien

TEUR	31.12.2021	31.12.2020
Assets	10,109	9,012
Financial assets	6,541	6,286
of which current	3,791	3,540
of which non-current	2,750	2,746
Other assets	3,568	2,726
Liabilities	4,893	3,994
Financial liabilities	3,034	2,897
of which current	3,034	2,897
Provisions	168	162
Other liabilities	1,691	935
Shareholders' equity	5,216	5,018

TEUR	2021	2020
Net interest income	0	1
Dividend income	0	25
Other income	873	735
Other expenses	-751	-431
Earnings before taxes	1,454	1,442
Taxes on income	-406	-345
Income after taxes	1,048	1,097
Dividends/distributions	850	680

Vorarlberger Kommunalgebäudeleasing Gesellschaft m.b.H., Dornbirn

TEUR	31.12.2021	31.12.2020
Assets	134	1,490
Financial assets	134	1,490
of which current	134	1,490
Liabilities	1	1,347
Financial liabilities	0	1,346
of which current	0	1,346
Other liabilities	1	1
Shareholders' equity	133	143

TEUR	2021	2020
Other income	6	10
Other expenses	-5	-9
Earnings before taxes	-8	-9
Taxes on income	-2	-2
Income after taxes	-10	-11
Dividends/distributions	0	47

MANAGING BOARD
DECLARATION

We confirm that to the best of our knowledge the consolidated financial statements prepared in accordance with applicable accounting standards provide a true and fair view of the Group's assets and liabilities, financial condition, and results of operation, and that the Group management report presents business events, business results and the Group's position so as to provide a true and fair view of the Group's assets and liabilities, financial condition, and results of operation, and that the Group management report outlines the principal risks and uncertainties to which the Group is exposed.

We confirm that to the best of our knowledge the parent company's financial statements prepared in accordance with applicable accounting standards provide a true and fair view of the parent company's assets and liabilities, financial condition, and results of operation, and that the management report presents business events, business results and the parent company's position so as to provide a true and fair view of its assets and liabilities, financial condition, and results of operation, and that the management report outlines the principal risks and uncertainties to which the parent company is exposed

Bregenz, 31 March 2022

Hypo Vorarlberg Bank AG

The member of the Managing Board

Michel Haller Chariman of the Managing Board Risk Management	Wilfried Amann Member of the Managing Board Sales Private and Corporate Customers	Philipp Hämmerle Member of the Managing Board Organization, IT and Finance

REPORT
OF THE SUPERVISORY BOARD

On an ongoing basis, the Supervisory Board monitors the managerial activities of the Managing Board within the framework established by law, the articles of association and the Supervisory Board rules of procedure. The Supervisory Board convened for five meetings at which it discussed the Managing Board reports pertaining to important plans and relevant events, the position and development of the Bank, its subsidiaries and holdings. The Supervisory Board adopted the planning for financial years 2021 and 2022, taking into consideration the Bank's strategic alignment jointly determined by the Supervisory Board and the Managing Board, and adopted the necessary resolutions. Because the contracts of Michel Haller and Wilfried Amann expired at the end of 2021, the Supervisory Board advertised the two positions in accordance with the legal requirements. The selection process resulted in the reappointment of Michel Haller and Wilfried Amann to their positions. In addition, the Supervisory Board mainly dealt with the topics “COVID-19 pandemic”, “strategic alignment of IT”, “diversity” and “sustainability” in 2021.

Supervisory Board committees
The Audit Committee met three times in 2021 and performed its control tasks to monitor the effectiveness of the internal control system, the risk management system and Internal Audit. The Audit Committee dealt particularly intensively with financial reporting in the annual and quarterly financial statements.

The Risk Committee met twice in 2021. Among other matters, it conducted the review of the restructuring plan and advised the Managing Board with regard to the current and future risk appetite and risk strategy.

The Loan Committee met twelve times in the 2021 reporting year. It examined the loans and credits that required its consent. The main features of the lending policy were also agreed with the Loan Committee.

The Remuneration Committee fulfilled its responsibilities pursuant to Section 39c of the Austrian Banking Act (BWG) and met three times in 2021.

The Nomination Committee met four times in 2021 and fulfilled its responsibilities pursuant to Section 29 BWG. The Nomination Committee focused on finding qualified candidates to take over the expiring Managing Board mandates of Michel Haller and Wilfried Amann. The advertisement and selection process was guided by a recruitment agency. Appropriate nominations were made to the Supervisory Board to fill the vacant positions in the management.

Corporate Governance Code
The Supervisory Board reviewed and discussed with the Managing Board business events requiring Supervisory Board approval pursuant to laws, the articles of association and/or the rules of procedure, granting approval accordingly. The Supervisory Board employed the Corporate Governance Code as a guideline in its activities

Audit
The 2021 financial statements and management report were audited by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Vienna, appointed by the annual meeting of shareholders to audit the financial statements. As indicated by the unqualified audit opinion given by this company, the financial statements and management report conform to legal requirements. The consolidated financial statements for 2021 were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. They were also audited by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Vienna, and issued with an unqualified audit opinion. The Supervisory Board will formally adopt the relevant resolutions following detailed discussions.

Thanks and recognition
The Supervisory Board would like to express its thanks and recognition towards the members of the Managing Board, the managers and above all the employees for their excellent achievements in the financial year 2021.

Bregenz, March 2022

Chairman of the Supervisory Board

Jodok Simma

AUDITOR'S REPORT

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS – AUDIT OPINION

We have audited the consolidated financial statements of

Hypo Vorarlberg Bank AG, Bregenz,

and of its subsidiaries (the Group) comprising the consolidated balance sheet as of 31 December 2021, the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders' equity and the consolidated cash flow statement for the fiscal year then ended and the notes to the consolidated financial statements.

Based on our audit the accompanying consolidated financial statements were prepared in accordance with the legal regulations and present fairly, in all material respects, the assets and the financial position of the Group as of 31 December 2021 and its financial performance for the year then ended in accordance with the International Financial Reporting Standards as adopted by EU (IFRS), and the additional requirements under Section 245a Austrian Company Code UGB and Section 59a Austrian Banking Act BWG.

Basis for Opinion
We conducted our audit in accordance with the regulation (EU) no. 537/2014 (in the following "EU regulation") and in accordance with Austrian Standards on Auditing. Those standards require that we comply with International Standards on Auditing (ISA). Our responsibilities under those regulations and standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the Austrian General Accepted Accounting Principles and professional requirements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained until the date of the auditor's report is sufficient and appropriate to provide a basis for our opinion by this date.

Key Audit Matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the fiscal year 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In the following, we describe the key audit matters from our perspective:

1. Valuation allowances for financial assets at amortized cost

2. Fair Values of financial instruments, that are categorized in the fair value level 3 of the fair value hierarchy

1. VALUATION ALLOWANCES FOR FINANCIAL ASSETS AT AMORTIZED COST

Description:
To reflect the risk of losses in the portfolio of financial assets at amortized Cost (EUR 12,506 million), the company recognised significant valuation allowances in its consolidated financial statements as at 31 December 2021 (EUR 116 million). These represent the Managing Board's best estimate of expected credit losses in the portfolio of financial assets at amortized Cost at the balance sheet date.

In accordance with the regulations of IFRS 9, financial assets are measured at amortized Cost depending on the classification of debt securities, loan and credits on the basis of the business model and the characteristics of the contractual cash flows. In addition, the level allocation designed by the company and its key assumptions for assessing the assessment of a significant increase in the default risk (level 2) or default events (existence of objective evidence of impairment - level 3) are significant for determining the amount of valuation allowances.

Valuation allowances are calculated using the discounted cash flow method. The expected cash flows are estimated in the same way as the expected proceeds from the realisation of collateral. Estimates are made on an individual basis (significant level 3 loan receivables) or on the basis of a collective estimate (rule-based approach for level 1 and 2 loan receivables and for non-significant level 3 loan receivables).

In this regard, we refer to the information provided by the company's Managing Board in the notes to the Consolidated Financial Statements in notes (3) "Accounting Policies", (23) "Financial Assets at amortized Cost" and (62) "Credit Risk".

The determination of the amount of valuation allowances is subject to considerable discretionary scope on the basis of the assumptions and estimates used. We have therefore identified this area as a material audit issue.

How we addressed the matter in the context of the audit:
In order to assess the appropriateness of the valuation allowances recognized, we have assessed the significant processes and models in credit risk management, taking into account in particular the regulations of IFRS 9. In particular, we have used the processes and models for classifying debt securities, loans and credits on the basis of the business model and determining the characteristics of the contractual cash flows. In addition, we have examined the level allocation designed by the company and its key assumptions for the assessment of a significant increase in the de-fault risk or default events in order to assess whether these pro-cesses and models are suitable for identifying a significant increase in the default risk or default events and determining the need for valuation allowances.

We have identified the internal control system, in particular the key controls for the purchase of debt securities and the granting of loans and credits, in ongoing monitoring and in the early warning process, and tested it in some areas. We have reviewed the internal control system in the area of credit management, in particular with regard to the correct handling of rating models and collateral valuation.

On the basis of a selection of already defaulted debt securities, loans and credits, we examined whether suffi-cient valuation allowances had been recognised. For these, we critically assessed management's estimates of future cash flows expected from repayments and collateral.

In addition to compliance with the internal rules regarding rating and collateral assignment, we examined a sample of debt securities, loans and credits that were not yet identified as defaulted to determine whether significant increases in default risk or loss events were fully identified.

When reviewing the valuation allowances on the basis of a collective estimate, we assessed the valuation models used and the parameters applied to determine whether they were suitable for determining appropriate allowances. We also examined the underlying data basis for its data quality and reconstructed the arithmetical accuracy of the valuation allowances.

In addition, we have examined whether the information provided by the company's Managing Board in the notes is complete and applicable.

2. FAIR VALUES OF FINANCIAL INSTRUMENTS, THAT ARE CATEGORIZED IN THE FAIR VALUE LEVEL 3 OF THE FAIR VALUE HIERARCHY

Description:
In its consolidated financial statements for the year ended 31 December 2021, the company records to a significant extent financial instruments at fair value that are assigned to level 3 of the fair value hierarchy. The carrying amounts of these financial instruments correspond to assets of EUR 839 million and liabilities of EUR 563 million as at 31 December 2021.

The valuation of these financial instruments requires the fair value to be determined using recognised valuation models and methods, as no market or stock exchange prices are available in an active market.

When using recognised valuation models, the selection of these valuation models and methods, the input parameters used and the discretionary decisions associated with them, which are subject to estimation uncertainties, are of decisive importance for determining the fair value to be applied.

Due to the fact that the financial instruments which are assigned to level 3 of the fair value hierarchy make up a significant amount of the company’s total assets and that estimation uncertainties may arise with respect to the input parameters relevant to measurement, we have selected this area as a material audit issue.

In this regard, we refer to the information provided by the company’s Managing Board in the notes to the Consolidated Financial Statements in note (56) “Disclosures on Fair Value” and note (3) “Accounting Policies".

How we addressed the matter in the context of the audit:
We have reviewed the valuation processes and the design and effectiveness of the Group's key controls with respect to data inputs for the valuation of financial instruments assigned to Fair Value Level 3 of the fair value hierarchy. In measuring these financial instruments, we have assessed the assumptions and methods used by the company's Managing Board to determine whether they are appropriate for determining correct values. On a sample basis, we assessed the valuation of these financial instruments and their recognition in accordance with the IFRS 9 categorisation.The valuation results were reconstructed with our own calculations on the basis of selected samples, with the involvement of internal specialists at EY. We also checked whether the information provided by the company’s Managing Board in the notes was complete and accurate.

Other Information
Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements, the management report for the Group and the auditor's report thereon.

The annual report is estimated to be provided to us after the date of the auditor's report.

Our opinion on the consolidated financial statements does not cover this other information and we will not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, we have the responsibility of reading this other information as soon as it is available and assessing whether this other information shows any material inconsistencies with the consolidated financial statements or with the knowledge we obtained from the audit of the financial statements or otherwise appears to be misstated.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements
Management is responsible for the preparation of the consolidated financial statements in accordance with IFRS as adopted by the EU, and the additional requirements under Section 245a Austrian Company Code UGB and Section 59a Austrian Banking Act BWG for them to present a true and fair view of the assets, the financial position and the financial performance of the Group and for such internal controls as management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU regulation and in accordance with Austrian Standards on Auditing, which require the application of ISA, always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the EU regulation and in accordance with Austrian Standards on Auditing, which require the application of ISA, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are in adequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we deter-mine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Comments on the Group Management Report

Pursuant to Austrian Generally Accepted Accounting Principles, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the management report for the Group was prepared in accordance with the applicable legal regulations. Management is responsible for the preparation of the management report for the Group in accordance with Austrian Generally Accept-ed Accounting Principles and banking regulatory requirements.

We conducted our audit in accordance with Austrian Standards on Auditing for the audit of the management report for the Group.

Opinion

In our opinion, the management report for the Group was prepared in accordance with the applicable legal requirements, contains accurate information in accordance with Section 243a UGB and is consistent with the consolidated financial statements.

Statement

Based on the findings during the audit of the consolidated financial statements and due to the thus obtained understanding concerning the Group and its circumstances no material misstatements in the management report for the Group came to our attention.

Additional information in accordance with article 10 EU regulation

We were elected as auditor by the shareholders' meeting on 28 October 2020. We were appointed by the Supervisory Board on 20 November 2020. In addition, we were already elected as the auditor for the following financial year by the shareholders' meeting on 16 June 2021 and were appointed by the Supervisory Board on 1 July 2021 to audit the consolidated financial statements. We have been the auditors continuously since 2010.

We confirm that the audit opinion in the section "Report on the consolidated financial statements" is consistent with the additional report to the audit committee referred to in article 11 of the EU regulation.

We declare that no prohibited non-audit services (article 5 par. 1 of the EU regulation) were provided by us and that we remained independent of the audited company in conducting the audit.

Responsible Austrian Certified Public Accountant

The engagement partner is Mr Ernst Schönhuber, Certified Public Accountant.

Vienna, 31 March 2022

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

Ernst Schönhuber eh	**ppa Mag. Georg Fikar eh**
Austrian Certified Public Accountant	Austrian Certified Public Accountant

BRANCHES AND CONTACT

BRANCH OFFICES
AND SUBSIDIARIES

HEADQUARTERS

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Stephan Bohle
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Karl-Heinz Strube
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Peter Scholz, Managing Director

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Dornbirn, Poststraße 11

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Hypo Vorarlberg Immo Italia GmbH
Bozen, Galileo-Galilei-Straße 10 H
Alexander Ploner, Delegate of the Board of Directors

ALWAYS CLOSE BY
LOCATIONS AND BRANCHES

In addition to our branches in Vorarlberg, we also have locations in the most important economic centers in Austria and in Eastern Switzerland. This way we can take care of our customers outside of Vorarlberg and, at the same time, personally convince others of the quality of our performance.

Hypo Vorarlberg – your personal advice in Vorarlberg, Wien, Graz, Wels, Salzburg and St. Gallen (Switzerland).

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Personal notation: Insofar as personal terms are used in this report in the masculine form, they refer to women and men in the same way.